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1974 Ontario Budget

*The Honourable John White
Treasurer of Ontario*

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Ontario Budget 1974

Ontario 1974 Budget



Presented by the Honourable John White,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
Tuesday, April 9, 1974

Ministry of Treasury, Economics and
Intergovernmental Affairs
Fiscal Policy Division



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Budget Statement

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The 1974 Budget at a Glance

	1973-74	1974-75	Growth Rate
	(\$ million)		
Gross Provincial Product	48,055	54,300	13.0%
Budgetary Spending			
— Ongoing Provincial Programs	5,255	5,853	11.4%
— New Provincial Initiatives	—	200	—
— Support to Local Governments	2,049	2,288	11.7%
Total	7,304	8,341	14.2%
Budgetary Revenue			
— Total (excluding land speculation tax)	6,883	7,691	11.7%
— Land Speculation Tax	—	+ 25	—
Total	6,883	7,716	12.1%
Budgetary Deficit	421	625	
Non-Budgetary Deficit	300	83	
Total Cash Deficit	721	708	

1974 Budget Statement

Mr. Speaker:

The most important problem facing us today is inflation. The year 1973 was one of record growth in Canada and in Ontario, but excessive price rises eroded much of the benefit which should have accompanied this strong development. Prices have accelerated steadily and we are faced with the prospect of 10 per cent inflation in 1974.

This worldwide phenomenon is threatening the stability and growth of the economies of the industrialized world. The growing shortage of basic raw materials and energy supplies is adding to inflationary pressures. There is little prospect for an early return to price stability unless all jurisdictions employ the powers at their disposal with new determination and courage. The Government of Ontario is willing to use every practical measure within its constitutional jurisdiction to combat inflation, in the expectation that other responsible organizations in the public and private sectors will do the same. This is our promise and this is our challenge.

The forces of inflation are durable and persistent. To beat back these forces requires concerted action by all levels of government. Ontario will provide leadership by initiating a course of forceful action which includes:

- *new measures to offset the effects of inflation,*
- *new measures to restrain inflation,*
- *new measures to stimulate supply,*
- *new measures to share with the public the profits from inflation,*
and
- *new measures to share resources with local governments.*

Our success in controlling inflation will depend on the cooperation of the wage earner, the consumer and the businessman. But it will also depend greatly on leadership and action by the federal government to puncture the myth that inflation is inevitable, and to restore confidence in the belief that every Canadian will share in rising prosperity.

Measures to Offset the Effects of Inflation

All Members are aware of the inequitable impact of inflation on low-income families and other groups on relatively fixed incomes. The first part of the Government's strategy for dealing with inflation consists of proposals for substantial new programs to offset the effects of inflation. These are:

- a new guaranteed annual income program for the elderly, blind and the disabled;
- free prescription drugs for elderly persons with low incomes and for all individuals on social assistance;
- enriched tax credits, including a doubling of the property credit to take into account the increased cost of heating; and
- a broadening of exemptions under the retail sales tax.

Ontario's Guaranteed Annual Income System (GAINS)

I am proposing a new Guaranteed Annual Income System, to be known as GAINS, for the elderly, blind and disabled in Ontario. The GAINS program will guarantee an income of \$50 a week for all single persons and \$100 a week for all married couples who are aged 65 and over, and for those who are blind or disabled and receive Family Benefits. This represents a guaranteed annual cash income of \$5,200 a year for a married couple and \$2,600 for a single person. In future, the guaranteed income levels will be increased periodically in order to maintain the purchasing power of benefits.

This program will commence July 1, 1974. In this fiscal year GAINS will provide \$75 million in increased cash income for people in need.

Beneficiaries of Ontario GAINS, July 1974	
	Number of People
GIS Pensioners	270,000
Other Elderly People	10,000
Disabled and Blind	
Social Assistance Recipients	31,000
	311,000

More than 310,000 people will receive Ontario GAINS cheques in July 1974. This will include 270,000 pensioners who are eligible for the federal Guaranteed Income Supplement (GIS) and a further 10,000 low-income elderly who are ineligible for GIS because they do not meet the federal residency requirement of ten years. No fewer than 120,000

pensioners will receive the maximum GAINS entitlement. With the introduction of this program, blind and disabled people will be entitled for the first time to the same income guarantee as those who are over age 65.

Ontario GAINS				
Monthly Benefits, starting July 1, 1974				
	Private Income	Old Age Security and Guaranteed Income Supplement	Ontario GAINS	Guaranteed Income in Ontario
	\$	\$	\$	\$
Single Pensioner	0	191.06	25.61	216.67
	10	186.06	20.61	216.67
	20	181.06	15.61	216.67
	30	176.06	10.61	216.67
Pensioner Couple	0	364.49	68.84	433.33
	20	354.49	58.84	433.33
	40	344.49	48.84	433.33
	60	334.49	38.84	433.33
	80	324.49	28.84	433.33
	100	314.49	18.84	433.33
Note: July 1st OAS/GIS payments are expected to increase by 2 per cent.				

Free Prescription Drugs

In addition to GAINS, Ontario will initiate a new program to remove the burden of high drug costs on needy pensioners. For all people who receive the Guaranteed Income Supplement and those on Provincial assistance programs, the Government will provide free prescription drugs. This program will begin in September and will cost \$12 million in the current fiscal year. Details will be announced by the Minister of Health.

Enriched Tax Credits

Mr. Speaker, I am also proposing a substantial improvement and enrichment of Ontario's tax credits to minimize the burden of shelter costs for those families most vulnerable to the eroding power of inflation:

- the Property Credit will double from \$90 to \$180;
- the Pensioner Credit will increase from \$100 to \$110; and

- the maximum tax credit entitlement will be raised from \$400 to \$500 and the offset rate will be increased from one to two per cent of taxable income.

These improvements will ensure that maximum benefits flow to those most in need of relief from rising living costs, including home heating, and will further reduce the burden of property taxes. Ontario's fair sharing tax credit system will now provide \$375 million in benefits to Ontario families and individuals compared to \$305 million in 1973.

Distribution of Ontario Tax Credit Benefits		
Income Groups	1973	1974
	(\$ million)	
Under \$5,000	140	182
5,000-10,000	101	122
10,000-12,000	28	37
12,000 and over	36	34
Total Payments	305	375
Average Credit	\$127	\$150
Average Credit for Pensioners	\$201	\$257

It is also becoming increasingly important to increase the scope and flexibility of the Ontario tax credits so that the administration of the Tax Credit System and GAINS will be fully integrated. Initially GAINS will be administered separately by the Ontario Ministry of Revenue. However, in recognition of the advantages which accrue in the long run through the integration of the income security and tax credit systems, Ontario plans to assume the full administration of its tax credit system.

Retail Sales Tax Exemptions

As a further measure to help restore the purchasing power of the consumers' dollars, I am proposing to remove the retail sales tax from a broad range of items. First, I propose to exempt a number of personal hygiene items such as toothpaste, baby powder, soap, deodorants and feminine hygiene products. Secondly, I propose to exempt a broad list of household products used for washing and cleaning purposes. A detailed list of the new exemptions is included in Appendix A to this Budget Statement.

The value of these sales tax exemptions is estimated to be \$28 million in this fiscal year. Ontario's exemptions are more extensive than those granted by any other Canadian province employing sales taxes, or by neighbouring states in the U.S.A.

Thirdly, I am proposing the full exemption of all footwear sold for \$30 or less. This will remove the sales tax from all children's shoes and most adult shoes, as well as from lower-priced skates, cleats and athletic

footwear. Until now children's shoes up to size 6 have been exempt. The value of this new exemption is estimated at \$15 million a year.

Children's clothing presents a taxation problem similar to that for shoes. The use of a size criterion for exemption inevitably means that the sales tax bears on clothing for larger than average children, while the exemption is enjoyed by smaller adults. The Government is interested in correcting this situation so that all children's clothing is free of the retail sales tax. I am considering a tax credit mechanism but invite any other ideas to achieve this desired result for the 1975 budget.

These sales tax cuts will lower the cost of many important items to Ontario consumers by \$43 million in this fiscal year. The changes will take effect after the necessary legislation is passed by the Legislature.

Mr. Speaker, the proposals which I have made for decreasing the effects of inflation are comprehensive and long-lasting. The sales tax exemptions will be of benefit to all of our people. The GAINS program will ensure that Ontario's elderly citizens enjoy a good standard of living during their retirement years, and that our blind and disabled people are guaranteed equal income benefits. The enriched tax credits will further reduce the burden of property taxes and home heating costs and free prescription drugs will provide significant assistance to those in need.

The GAINS program and the improved tax credit system are an important step towards a comprehensive guaranteed income system for Ontario citizens. The Government intends to build on these advances and invites the suggestions of interested groups for improvements to these programs in the future.

In summary, the measures I have proposed involve an additional \$200 million to offset the effects of inflation.

Measures to Restrain Inflation

Mr. Speaker, I should now like to describe three important new measures to restrain inflation. They are designed to stabilize land prices, encourage Canadian ownership of Ontario real estate, and freeze public transit fares.

Land Speculation Tax

One cause of present inflation is the rapidly escalating price of land. Some increase in land prices is to be expected because of the steady process of urbanization and the need to accommodate 100,000 new families in Ontario each year. There is no doubt however that speculation both by Canadian residents and by non-residents bids up prices artificially, increases the cost of housing and generates unwarranted windfall gains.

Therefore, Mr. Speaker, I am proposing a new tax to discourage this speculative activity. This tax has two objectives:

- to reduce the escalation of land and housing prices; and
- to recover for the public a major share of windfall gains from land speculation.

The land speculation tax will go into effect at midnight tonight. It will impose an additional 50 per cent tax on the increase in value realized on the sale of designated land. Over and above this tax, normal personal and corporate income taxes will apply. The speculation tax is designed to bear most heavily on owners of land and properties which are purchased and resold without any real value being added.

**Effective Total Tax* on Land Gains
Before and After
Ontario's 50 Per Cent Land Speculation Tax**

	BEFORE		AFTER	
	Transaction Treated As		Transaction Treated As	
	Income	Capital Gain	Income	Capital Gain
	%	%	%	%
1. Corporations				
• Private	61	31	81	65
• Public	74	60	87	80
2. Individuals	61	31	81	65

*Includes income taxation at top marginal rate.

The Government does not wish to discourage development and construction of industrial, commercial or residential buildings. Accordingly, exemptions will be provided in the following instances:

- sale of property used for commercial and industrial purposes including tourist establishments will be exempt;
- sale of property where the vendor has complied with a subdivision agreement and constructed residential or commercial premises will be exempt; and
- sale of property where the vendor has purchased serviced land and constructed residential or commercial premises will be exempt.

Homeowners will be exempt from the land speculation tax on their principal residence, including ten acres of land. A principal recreational property including twenty acres of land will also be exempt. This latter exemption will not apply, however, where the purchaser of the recreational property, such as a cottage, is a non-resident of Canada. People who trade in non-principal properties will be taxed on any gain which they realize from sale of these non-principal residences. Persons who effectively dispose of land through transfers of corporate shares will also be required to pay the tax.

Family farms will be exempt from the land speculation tax when the farms are transferred within the family and continue in agricultural use. When disposed of outside of the family these farms will bear the tax on the appreciation in value after April 9 in excess of 10 per cent compounded annually. This feature will help to retain land in agricultural use and also ensure that the tax does not apply unfairly to farmers, whose income, capital and pension stream is largely tied up in the form of land.

The following features will also be incorporated into the land speculation tax:

- acquisition cost will be the fair market value on April 9, or the actual cost if purchased after April 9, 1974;
- in determining the increase in value after April 9, capital improvement costs and reasonable carrying charges not exceeding 10 per cent per annum will be allowed as eligible deductions. These eligible deductions also apply to family farms; and
- the land speculation tax will not apply in the case of expropriations, sales to all governments and agencies thereof, nor to Canadian resource properties in Ontario.

The Government of Ontario recognizes that strong measures are required to curb the excessive land speculation now occurring. We are determined to proceed with firm action. At the same time we recognize that this is a complex matter and unforeseen problems may emerge in administering this new tax. Thus during the first year of operation I envisage a series of amendments and refinements to the land speculation tax bill. This bill will be tabled immediately after this address by my colleague the Minister of Revenue.

By introducing this land speculation tax I hope to deflate or at least slow down land price increases, and thereby contain costs for housing and other development projects in Ontario. The success of this speculation tax will be inversely related to its revenue yield—the smaller the revenues the greater the desired impact on curbing speculation. For this fiscal year the revenue yield from the speculation tax can be little more than a rough estimate, which I have set at \$25 million in keeping with my optimism that the tax will indeed produce the anti-speculation result the Government is seeking.

Half of the revenue from this new tax will be shared with Ontario municipalities utilizing a method to be designed by the Provincial-Municipal Liaison Committee. Recent experience with the Fiscal Arrangements Sub-Committee of the PMLC has proven the value of this form of provincial-municipal cooperation. I will require that these additional local revenues be correlated with the municipalities' success in providing new housing at reasonable cost for our people. The Government of Ontario expresses its appreciation to the Co-Chairman and members of the PMLC for their cooperation in financial and legislative matters during the past year.

Land Transfer Tax

In examining the problem of rapidly rising prices for real property in Ontario, it has become increasingly apparent that large-scale acquisition of land by non-residents of Canada is a significant factor. The matter of control of non-resident ownership of Canadian land is a current constitutional issue which has not been fully resolved. The problem has been studied, however, and has been reported on recently by Ontario's Select Committee on Economic and Cultural Nationalism.

The Government of Ontario recognizes that positive action on this matter is required now in order to maximize Canadian ownership of our real estate. The Government has decided therefore to take interim steps using the instruments at its disposal. Accordingly, I am proposing to increase substantially the land transfer tax on purchases of land by non-residents of Canada, to 20 per cent from $\frac{6}{10}$ of 1 per cent, effective at midnight tonight.

In proposing this measure, I wish to emphasize that we continue to welcome the flow into Ontario of mortgage and debt financing from abroad. I emphasize also that it is not our intention to penalize industries which seek to locate or expand in this province, although we would encourage these established companies to broaden Canadian equity participation.

To ensure that industries which contribute substantially to the Ontario economy will not be penalized, I propose to establish a review procedure whereby the additional transfer tax may be rebated in certain instances. The Minister of Revenue will table the bill immediately after my Budget Statement.

In order that the tax on non-residents does not curtail the operations of foreign companies which play an important role in developing our stock of housing and commercial realty, I propose to forgive the additional tax when vacant land bought by a non-resident is sold back to Canadians within five years, in the form of housing or developed commercial premises.

The increase in land transfer tax to 20 per cent on purchases by non-residents will complement and reinforce the land speculation tax.

Speculative pressure on land prices will be relieved at both the purchase and sale points.

I estimate that this increase in land transfer tax will yield an additional \$60 million in 1974-75.

Transit Fare Freeze

On November 22, 1972 Premier Davis clearly enunciated Ontario's policy to encourage public transit when he said:

"The Province will shift emphasis from urban expressways to a variety of transportation facilities which will put the people first."

Accordingly, the Government has created new forms of financial assistance to translate this policy into action. They comprise capital grants to cover 75 per cent of the costs of new buses, streetcars and subways. We also assist in the financing of the operating deficits of transit authorities. Under this policy, public transit facilities have expanded considerably, the extent and quality of service has been improved, and Provincial operating subsidies have grown from \$5 million in 1971-72 to \$18 million in 1973-74.

Rising costs of running transit services are now creating financing problems for municipalities. Without additional financing support from the Province, transit fares would have to increase. To prevent fare increases, while at the same time limiting the resulting burden on local governments, I am proposing an important enrichment in our financial support towards public transit.

The Government of Ontario now proposes a plan which consists of removing the ceilings on the Province's present operating subsidies and substituting full sharing of the deficit burden with local authorities. This means that Ontario will increase its operating subsidies to \$35 million in 1974-75, which compares to \$20 million if the old formula had been continued. This level of funding is based on the existing fare structures and the participating municipalities will be required to freeze all transit fares at their present levels.

Following are some examples for the estimated increase in Provincial support of transit operations:

Metropolitan Toronto	\$11,250,000
Ottawa	2,145,000
Hamilton	910,000
Oshawa	263,000
Thunder Bay	235,000
London	159,000

This initiative will produce two beneficial results. First, costs of getting to work and other destinations will not increase during this period of high inflation. Secondly, there will be an increased incentive

to expand and improve public transit services in this province. The Government of Ontario is grateful to municipal officials for their cooperation in the deliberations leading to this new Provincial subsidy program.

Ontario's Support of Local Transit Operations (\$ million)				
	1971-72	1972-73	1973-74	1974-75
Operating Subsidies	4.8	12.4	18.4	35.0
Capital Grants	—	—	17.3	20.0
Subway Construction Grants	16.7	17.5	14.9	30.9
Total Financing Support	21.5	29.9	50.6	85.9

These three initiatives to restrain inflation will be carefully monitored for their effects on the provincial economy and they will be adjusted, if necessary, to attain the desired objectives.

Measures to Stimulate Supply

Mr. Speaker, I should now like to introduce proposals to stimulate small Canadian businesses, and to encourage residential and non-residential construction by increasing grants for water and sewerage projects and by rationalizing Government land development operations.

Small businesses play an important role in our economy. It is a social and economic role which justifies special incentives to encourage new and existing small enterprises to develop and expand their operations, thus creating new and challenging jobs for Canadians. Two major problems encountered by small business are availability of venture equity capital and its high cost. I am therefore proposing a new program which will help overcome these problems.

Small Business Tax Credit

The first part of this program is an investment-related incentive designed to encourage the growth of active Canadian-controlled private corporations which qualify for the federal small business deduction. These corporations will be entitled to an income tax credit equal to 5 per cent of the increase in their capital in Ontario, to a maximum of \$3,000 annually. Relating the incentive to increased capitalization will ensure that the tax savings are used to finance corporate growth. Increases in plant, inventory and similar assets are reflected in the amount of paid-up capital and such increases thereby qualify for this investment credit. This change will be effective with fiscal years ending

after April 9, 1974. I estimate the revenue cost of this incentive to be about \$15 million in 1974-75. The accompanying example in the text of this Statement illustrates the effect of this new credit.

Example of Ontario's Small Business Tax Credit

	\$
Paid-up capital in 1973	500,000
Paid-up capital in 1974	580,000
Increase in paid-up capital	80,000
Taxable income	100,000
Ontario income tax before credit	12,000
Credit—lesser of:	
5% of increase in capital	\$4,000
50% of Ontario income tax, maximum \$3,000	3,000
Ontario income tax payable	9,000

Venture Investment Corporations

The second part of my program to assist small Canadian businesses is designed to motivate private sources of venture capital to provide funds to small enterprises. The Government of Ontario appreciates the cooperation of the Financial Executives Institute of Canada, the Ontario Chamber of Commerce, the Canadian Manufacturers' Association, and the Investment Dealers' Association of Canada in developing this program.

The new incentive which I am proposing provides for a tax flow-through for a new type of corporation, termed a "Venture Investment Corporation" or VIC. This corporation will participate in the financing of small Canadian enterprises qualifying for the federal small business deduction. Corporations investing in a VIC would be allowed to deduct such investment from their taxable income and thus defer income taxes as long as the investment is kept in the VIC.

The incentives recommended in this proposal affect only the Ontario corporate income tax. Ontario, however, has limited scope to ensure the full success of this proposal if the federal government does not participate.

- First, the low 12 percent Ontario corporate income tax rate is not sufficiently large by itself to attract substantial investments in VICs since the resulting tax deferral would be relatively small.
- Secondly, investments by individuals in VICs, which constitute a major potential source of financing, would not be eligible for the tax incentive.

I invite the federal government to participate by adopting this approach with respect to federal income taxes. I will initiate discussions

with the federal Minister of Finance as soon as possible on ways of jointly implementing this proposal and I will bring forward enabling tax legislation during 1974.

Mortgage Investment Corporations

Having requested the federal government to parallel our proposal concerning Venture Investment Corporations, I am pleased to announce that we in turn intend to parallel the federal tax treatment of Mortgage Investment Corporations. This tax change permits the flow-through of funds to the investor without corporate tax, then treats payments received by the investor as interest rather than dividends. This will encourage the flow of funds into the residential mortgage market from small investors and supplement other efforts to increase the supply of housing.

Paid-up Capital Tax on Family Farms

As an additional measure to assist small business, I am proposing a reduction in the paid-up capital tax on family farm corporations to a flat rate of \$50 annually. To qualify, the farm corporation must meet essentially the same conditions required for the forgiveness provided under The Succession Duty Act for *bona fide* family farms.

This change means that family farm corporations will pay only the \$50 minimum capital tax. I estimate the revenue cost of this measure to be \$250,000 in this fiscal year.

Succession Duties and Family Farms

Mr. Speaker, at the request of Members of the Legislature, I propose to introduce amendments to The Succession Duty Act, which will extend the definition of eligible assets for purposes of forgivable farm succession duties. These changes will be retroactive to April 12, 1973 when the concept of forgivable farm duty was introduced. Changes will also be proposed with respect to the once-in-a-lifetime gift affecting farm families so that the gift may be made in several annual instalments.

Let me reiterate the Government's policy on succession duties. We intend to continue to tax large accumulations of wealth, while at the same time ensuring that the tax does not bear on citizens of average means. Accordingly I should like to take further steps to ensure that inflation does not drive people of moderate means into this tax.

I am proposing the following changes in The Succession Duty Act, effective with deaths occurring after midnight tonight:

- that the basic exemption of \$100,000, below which an estate is not taxable, be increased to \$150,000;
- that the exemption for surviving dependent children be raised from \$2,000 to \$3,000 for each year that the dependent is under 26 years of age;

- that the exemption for orphaned children, currently at \$4,000 for each year that the dependent is under 26 years of age, be increased to \$6,000; and
- that the exemption for invalid or infirm dependents be raised from \$4,000 to a new and higher level of \$6,000 for each year the individual is under 71 years of age.

These changes will affect all estates and will cost \$6 million in this fiscal year.

Municipal Water and Sewerage Grants

To increase the supply of serviced lots, the Government is proposing to make available to restructured municipalities a 15 per cent grant in respect of capital costs for regional water and sewage projects. All projects which are now under way, including the York Pickering trunk lines, will be completed by the Province and the assets turned over to the restructured municipality at 15 per cent less than the cost to the Province. The estimated cost of these changes is \$11 million in 1974.

To increase the supply of housing, the Government, through the Ministry of Housing, will implement a number of new programs, and expand existing programs in order to ensure continued expansion in Ontario's housing supply. In 1973 there were more than 110,000 housing starts in the province, a 7 per cent increase over the 1972 level, the largest number of housing starts in our history. This year, \$19.8 million has been allocated to the new Ontario Housing Action Program which will increase the supply of serviced lots available for residential construction. In addition, funds available through the Ontario Mortgage Corporation will be increased in order to help families with moderate incomes to purchase homes. The Government has also initiated a number of programs to rehabilitate neighbourhoods and residences, including the Ontario Home Renewal Program and the federal-provincial Neighbourhood Improvement Program, which together with the Community Sponsored Housing Program have been allocated \$17 million for the fiscal year. The Ontario Housing Corporation's program for rental accommodation for pensioners and low-income families, which currently provides more than 60,000 units, will expand significantly in 1974. More than 8,000 units are now under construction and are expected to be occupied within the year. An additional 19,000 units are in various stages of development.

The Ontario Land Corporation

In recent years, the Province has been increasingly active in the purchase of land to meet a number of social and economic objectives. In future we expect there will be significant expansion in this activity with important financing implications. It is imperative, therefore, to lay the groundwork for improved coordination of Government land activities involving development and resale or lease of land for industrial or

residential purposes. Accordingly, I intend to bring forward legislation this year to establish an Ontario Land Corporation which will be given the financing and coordinating responsibilities for the Government's land development operations.

The new Ontario Land Corporation will have the power to acquire, service and develop land in the province for resale or leasing on a long-term basis. The Corporation would not hold any lands in perpetuity. In addition to increasing the supply of housing, the Corporation would also be involved in the establishment of industrial parks to nurture development in certain parts of the province. It would also purchase and lease back land and buildings to the Ministry of Government Services in competition with the private sector. It would acquire the assets of projects such as the North Pickering Community Development Project and possibly other new towns.

The Ontario Land Corporation would enable the Government to make better use of the special skills and entrepreneurial talents available in the private sector.

I envisage the financing of the Corporation to be similar to that of Ontario Hydro. Land acquisition will be financed by current revenues, by Government loans, and by own-account borrowing guaranteed by the Province. I am inviting proposals from the investment community to form a new syndicate for the financing of this corporation, using imaginative debt instruments and introducing a new note of competition into the capital markets. By bringing together major land purchases of the Government in this manner, it will be possible to plan for the development of regions in the province on a coordinated basis and to increase the impetus of development in Eastern and Northern Ontario.

Measures to Share Profits from Inflation

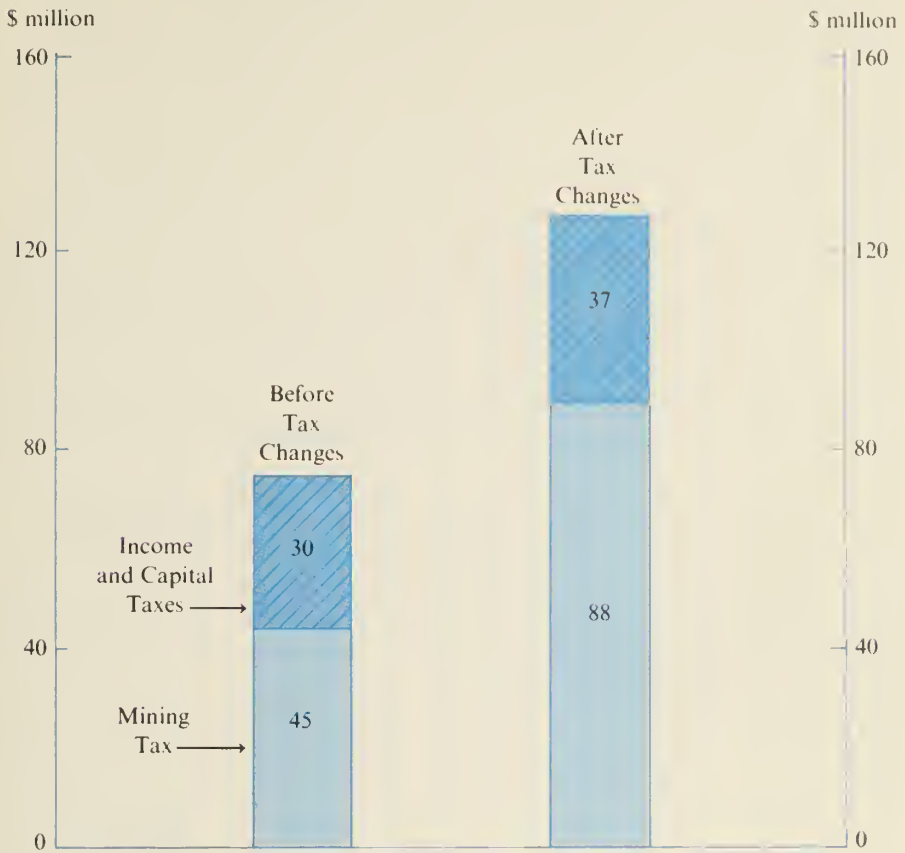
Mr. Speaker, I should now like to describe proposals designed to secure for the public of Ontario a larger share of profits from mining and forestry resources.

Taxation of Mines

During the past two years a worldwide shortage of raw materials has developed on an unprecedented scale. Increased demand by major industrialized countries has resulted in sharply higher metals prices and substantial windfall gains for the mining industry in Ontario. With the prospective demand for minerals likely to sustain current price trends into the future, it is only fair that we secure for the people a higher return from our natural resources.

For legal and financial reasons, I have decided to increase the mining profits tax rather than impose a new royalty on our resources. The mining

Estimated Ontario Revenue from The Mining Industry, 1974



profits tax has the advantage that it takes into account the expenses of extracting the ore and, consequently, it does not discourage the mining of low-grade ore. A royalty system, on the other hand, tends to encourage high-grading, that is the mining of only high-grade ore. I am proposing, therefore, to double the revenue yield of the mining tax. This is to be achieved by replacing the present 15 per cent flat rate tax with a graduated rate ranging from a zero rate on the first \$100,000 of profits to a rate of 40 per cent on profits in excess of \$40 million.

This new initiative would secure a large share of windfall gains without imposing an unfair burden of taxation should metals prices and profits decline. The low initial rate of the graduated tax will be of assistance to the smaller mining companies whose operations often provide the only major source of employment in isolated northern communities.

In addition to doubling the mining tax, I am proposing other measures to increase income tax revenues from the mining industry.

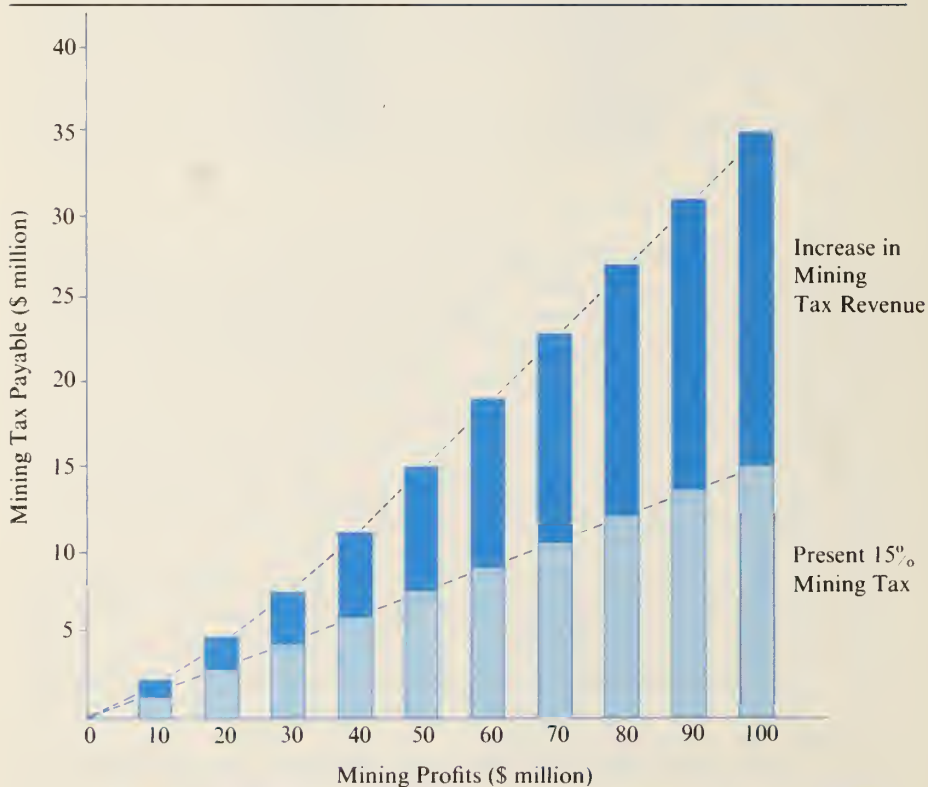
These are:

- abolition of the three-year exemption for new mines;
- disallowance of the deduction of mining taxes and mining royalties for corporate income tax purposes; and
- removal of the mine and mill allowance under the capital tax.

At the same time, I am proposing changes which will increase incentives for exploration and development and processing in Ontario. These changes are:

- the depletion allowance will continue to apply automatically to all operators and non-operators;
- the fast write-off provisions under the federal Income Tax Act will be paralleled by Ontario for new mines, major expansion of existing mines and associated processing facilities;
- full deduction of pre-production expenses will be allowed under The Mining Tax Act; and
- full deduction will be allowed under The Corporations Tax Act of exploration and development expenses incurred in Ontario by non-principal business corporations.

Illustration of the Impact of New Graduated Mining Tax



The last provision means that a corporation not in the mining industry will be entitled to decrease taxable income for Ontario corporation income tax purposes by the amount of the expenses incurred in exploring for and developing mining properties as has been the case in the past for mining companies only. The federal government will be asked to consider similar provisions affecting their corporate income tax.

In addition to the above tax incentives, the Ontario Government is considering the expansion and modification of the Mineral Exploration Assistance Program to cover the whole province. The Government is also considering the establishment of a Crown corporation to undertake exploration activities in Ontario. The Minister of Natural Resources will announce full details of these programs later this year.

In a full year, the net impact of these changes will be to increase Provincial revenues from the mining industry by \$50 million, from \$75 million in 1973-74 to \$125 million in 1974-75.

Timber Resources

In addition to doubling the yield of the mining tax, I am also proposing to double the Crown dues which the Province receives from the cutting of timber on Crown lands. These dues are the main form of revenue from Crown timber. It has been many years since they were last increased. Some increase in revenue will also result from a reduction in the large number of different rating groups for these dues. The combined addition to revenue is about \$12 million in a full year. This will raise the present level of revenues from \$12 million to \$24 million in 1974-75.

This doubling of Crown dues is an interim measure, pending a complete review of this revenue field. The review will be conducted by a task force under the joint direction of the Minister of Natural Resources and myself. It is our intention to implement a system which will be more responsive to changes in forest company profits, revenues rising with increasing profits and declining with decreasing profits.

Mr. Speaker, the extra \$62 million which will be raised from the mining and forest industries represents a fair return to the people of Ontario from these natural resources.

Measures to Share Resources With Local Governments

Let me now turn to the Government's measures to share Provincial resources with local governments. In developing these measures, I have had the pleasure of extensive discussions with representatives of local government. Particularly, I had many useful meetings with the Municipal

Liaison Committee and its Fiscal Arrangements Sub-Committee. These discussions contributed greatly to the Government's revenue-sharing arrangements.

Review of 1973 Performance

In 1973, local governments were faced with a \$140 million financing deficiency and the need to increase mill rates on average by 8 per cent. Concerned about the prospect of eroding tax reform gains already made, the Province increased its assistance dramatically to prevent increases in the property tax. In the 1973 Budget, \$180 million in new forms of local support was announced. The key element in this reform program is the Property Tax Stabilization Plan. This plan is a balanced program of different types of unconditional grants, involving a degree of equalization, an incentive to restrain and economize in spending, and recognition of special burdens and cost factors. In retrospect, this plan has proven to be successful and effective. I am very pleased with the degree of cooperation from local governments in passing on the benefits of these transfers to their taxpayers. *Property tax rates were in fact reduced during 1973 by more than 5 per cent on average from 1972 levels. As a result, 1973 became the first year the Provincial transfers to local governments exceeded the total revenue from property taxes.*

Mr. Speaker, I believe it will be of interest to the Members and others to gain additional insight into the distribution of funds under this plan and the impact it has had on local spending and taxes. I am making available, therefore, in a separate document on the property tax stabilization program a number of summary tables which display the distribution of the new grants, the local spending growth rates and the changes in property tax rates. The main effects of the program are summarized in the following table.

Municipal Spending Growth Rates and Mill Rate Changes: 1973			
	Number of Municipalities	Average Mill Rate Decrease in 1973	Average Spending Increase in 1973
		%	%
Lower-Tier Municipalities	862	-5.5	9.0
Upper-Tier Municipalities	40	-3.9	12.7
All Municipalities	902	-5.1	10.2

It is interesting to note the success of the expenditure restraint introduced by the Province in keeping municipal spending growth rates, on average, below historical standards in spite of the rate of inflation. This expenditure constraint combined with new assistance ensured a substantial benefit to local taxpayers in reduced property taxes.

The Local Government Financial Outlook

The grant reforms introduced last year were based on a comprehensive analysis of the financial outlook for local governments. In aggregate, the reforms more than covered the anticipated local deficit. For 1974 we have re-examined the financial outlook of the local government sector which will again be significantly underfinanced. Local finance tends to deteriorate more rapidly the higher the rate of inflation in the economy, because municipalities' own revenues are not responsive to inflation.

Financial Outlook for Local Government in 1974

(\$ million)

	Municipalities	School Boards	Total
Total Spending	2,552	2,391	4,943
Total Revenue (including existing Provincial grants)	2,062	2,259	4,321
Net Cash Requirements	490	132	622
New Debt Issues (maximum)	360	80	440
Financing Deficiency	130	52	182
Equivalent Increase in Average Mill Rates	13.5%	6.2%	10.1%

After allowing for maximum prudent borrowing, the local government sector is expected to incur a \$182 million financing deficiency in 1974 in the absence of any new grant enrichments. To meet this deficiency, local mill rates would have to be raised, on average, by 10 per cent.

The Ontario Revenue-Sharing Plan

The implications of these prospects are considered undesirable by the Ontario Government. We propose a new revenue-sharing plan which has the merits of greater certainty about future assistance, of protecting tax reforms already achieved and of stabilizing property taxation in the total tax system. The broad outlines of the Ontario Government commitment were announced by me at the National Tri-level Conference held in Edmonton in November 1973. The three parts of the Ontario Government's revenue-sharing commitment are the following:

- the Province will increase its transfers to local governments and agencies at the rate of growth of total Provincial revenue;
- the Province will pass on to local governments the full benefit of any net gains in new unconditional tax sharing by the federal government; and
- the Province will give municipalities access to funds generated by the Ontario Municipal Employees Retirement System to permit better use of credit capacity.

I am pleased to announce in this budget \$124 million in grant enrichments. This amount reduces the potential financing deficiency to \$58 million or the equivalent of an average increase in property taxes of 3.2 per cent instead of 10 per cent. This deficiency would be further reduced by whatever new revenues are realized from the municipal half of the Land Speculation Tax.

Unusually large increases in Provincial assistance such as the 1973 reforms cannot be repeated every year because they are quite obviously beyond the financial capacity of the Ontario Government itself. It is our suggestion that the federal government play its part in further alleviating the pressures on property taxes. As shown in Budget Paper B, a modest improvement in federal tax sharing would meet the balance of anticipated local financing deficiencies and, through the Province, further reduce municipal dependence on regressive property taxes.

The Province's revenue growth rate of 11.7 per cent is applied to basic transfers of \$2,049 million in 1973-74. As a result, the Government will make basic transfers in the 1974-75 fiscal year of \$2,288 million, which is an increase of \$239 million. This total increase includes \$124 million for new Provincial transfers, of which \$3 million comes from the deconditionalization of nine existing transfer programs. (See Appendix B). Land speculation tax revenues are not included in those amounts.

Ontario Commitment to Local Governments

Total 1973-74 Basic Transfers	\$2,049 million
Growth Rate of Total Provincial Revenue in 1974-75	11.7 per cent
Total 1974-75 Basic Transfers	\$2,288 million
Existing Grants at Normal Growth	\$2,164 million
Funds Available for Grant Enrichment	\$ 124 million

OMERS

The third commitment to local government announced at the National Tri-level Conference was the Government's intention to provide local government with access to some of the funds generated by the Ontario Municipal Employees Retirement System. As you know Mr. Speaker, the Government has, since the inception of OMERS, provided a special investment vehicle which has enabled the System to develop a sound actuarial base. As OMERS matures there is a general realization that this assistance can be phased out. Therefore, I propose that in 1975 up to 20 per cent of OMERS net receipts be made available to the System for wider investment opportunities, with the balance to be invested in special Ontario debentures. This percentage will be increased from year to year as investment experience is developed by

the OMERS organization. This proposal is in accordance with the recommendations of the Study Group established by me to review OMERS' investment policies. I expect that OMERS will take full advantage of the Government's flexible position with respect to the investment of these funds to achieve the primary objective of further improving the level of pension benefits to the System's members in future years.

I also propose that municipal employee and employer representation on the OMERS Board be increased while the number of Ontario's public servants on the Board be reduced.

The 1974 Property Tax Stabilization Plan

In transferring the \$124 million in new assistance to local government, we have taken account of several objectives and situations concerning local government. We have introduced five new regional governments, we have recognized the realities of urban transit problems, we have continued an equalizing role, and we have provided universal assistance to local government to meet the 1974 financial requirements in the face of slow-growing local revenues. We have designed a package of enriched unconditional assistance which meets these requirements. The main vehicle for the Province's larger transfers is the Property Tax Stabilization Plan, comprising resource equalization grants, general and special support grants as well as per capita grants.

The Resource Equalization Grant

The resource equalization grant was the most important component of the 1973 Property Tax Stabilization Plan. The Government intends to increase this grant by a number of changes in the formula. These changes are summarized as follows:

- the standard of equalized assessment per capita will be raised to \$10,100, reflecting the increased average per capita assessment in Ontario;
- the grant rate will be raised from 50 per cent to 60 per cent of the relative deficiency below this average;
- the base of the grant will be the 1973 net general dollar levy, which will be broadened to include grant entitlements under The 1973 Property Tax Stabilization Act; and
- the maximum rate of this grant will be raised from 20 to 25 per cent of the 1973 net general dollar levy as adjusted for last year's grant entitlements with further adjustments for former recipients of mining revenue payments.

The above enrichments of the resource equalization grant will transfer an additional \$15 million to resource-deficient municipalities

in the province, bringing the total funds committed by the Province in 1974 for resource equalization to \$71 million.

The General Support Grant

In 1974-75, the Ontario Government will enrich significantly the general support grant. This grant is available to all municipalities and it is responsive to tax effort as well as to local economies in spending growth. The grant rate schedule has been revised to take into account the predicted rate of inflation without removing the incentive to restrain spending. Last year, the lowest grant rate of 2 per cent corresponded with a spending growth rate of 12 per cent or higher. This year, the lowest grant has been raised to 3 per cent and will correspond to a spending growth rate of 14 per cent or higher. The schedule increases the grant rate by 1 per cent for every percentage reduction in expenditure growth below 14 per cent so that the maximum grant rate of 9 per cent is earned when the spending growth is held to 8 per cent or less. All upper and lower tier municipalities in new regional municipalities will receive a flat grant rate of 7 per cent of their 1974 net general dollar levy.

The estimated increase in general support grants in 1974-75 is \$33 million, raising the total value of this grant to \$82 million.

General Support Grant Rates

Municipal Spending Growth Rate	Provincial General Support Grant Rates	
	1973	1974
(%)	(%)	(%)
8 or less	6	9
9	5	8
10	norm 4	7
11	3	6 norm
12	2	5
13	—	4
14 or more	—	3

Northern Ontario Special Support Grant

The special 10 per cent support grant to Northern Ontario municipalities has provided significant relief to local government and taxpayers in the remote parts of the province, where costs substantially exceed those in other parts of the province. The Ontario Government has decided to increase the rate of this special support grant from 10 to 12 per cent of the net general dollar levy. This higher rate will provide an increase in special assistance to Northern communities of \$4 million in 1974 from \$9.9 million last year to \$13.9 million in 1974-75.

Per Capita Grants

The per capita grants for both regional and other municipalities will be simplified and increased. Regional governments will receive a 10 per cent increase plus an additional 20 cents per capita to assume responsibility for local planning. This amounts to an increase from \$8 to \$9 per capita which is 12.5 per cent. The scale of payments for per capita grants for non-regional municipalities is increased by a similar percentage together with a reduction in the number of population ranges. Both types of per capita grants will be calculated on a two-year advance in the population base.

The Per Capita Grant Towards Policing

The grants made towards the cost of policing will also be increased for 1974, and will be made on the same updated population base as the main per capita grant. The rate of grant will be increased from \$3 to \$5 per capita for non-regional or regional lower-tier municipalities providing policing services and from \$5 to \$7 per capita for regional municipalities with regional police services. The additional cost of these enrichments will amount to \$17 million to a 1974-75 total of \$42 million.

Other Forms of Assistance

Having recognized special problems in the large urban areas, the Ontario Government proposed to recognize unusual situations which have arisen in rural areas. In recent years, spending restraints of the Province have increasingly resulted in municipal spending on roads without the benefit of financial assistance towards part of this activity. This has become a particular concern in those smaller communities which cannot realistically ease their road spending requirements by public transit solutions. To meet this pressing problem, the Province will allocate a special \$17 million to assist the smaller municipalities in rural areas in financing their needs for roads. This brings the Province's total road building and maintenance grants to \$229 million in 1974-75 from \$199 million in 1973-74.

Lastly, we intend to improve the arrangements by which the Province subsidizes public libraries and museums. A total of \$16.5 million will be set aside for these purposes compared to total grants of \$13.5 million last year.

Summary of 1974 Assistance to Local Government

Mr. Speaker, I think it might be of assistance to the Members if I summarized at this point the increases in Provincial grants to local government. The Province expects to increase its total direct transfers to local governments by \$239 million, \$124 million in new grants and \$115 million in increases to existing transfer programs. The Ontario Government is channeling most of the new resources into unconditional

grants. These measures provide for substantial sharing of our limited resources with local governments.

Overall Net Gains to Local Government—1974

(\$ million)

Grant Program	Increased Transfer
Resource Equalization Grant	15
General Support Grant	33
Northern Ontario Special Support	4
Main Per Capita Grant	11
Per Capita Grant Towards Policing Costs	17
Transit and Rural Roads	24
Other Grant Enrichments	20
Total	124

Ontario Assistance to Local Government

(\$ million)

	1971	1972	1973	1974
Property Tax Revenue	1,682	1,789	1,763	1,896
Provincial Assistance	1,529	1,666	1,875	2,152
Other Local Revenue	325	388	435	455
Total Local Revenue	3,536	3,843	4,073	4,503
Property Tax Revenue as a % of Local Revenue	47.6%	46.6%	43.3%	42.1%
Provincial Assistance as a % of Local Revenue	43.2%	43.4%	46.0%	47.8%

Financial Plan for 1974-75

Mr. Speaker, the Government's financial plan for 1974-75 aims at:

- a neutral economic impact with spending growth of 14.2 per cent;
- a balance in tax increases and tax cuts;
- stable net cash deficits as this term is defined; and,
- a substantial reduction in the public debt resulting from cash receipts in excess of cash disbursements and from decreases in our liquid reserves.

Expenditures

Budgetary expenditures are forecast to increase by 14.2 per cent in 1974-75. This is a higher rate of increase than in 1973-74 but it is below the average of the last five years in spite of inflation. This inflation has

raised the costs of existing programs and has also necessitated increased Provincial transfers. Following the procedure adopted last year, the Estimates are again being tabled separately by the Chairman of the Management Board on the basis of policy fields and the responsible Ministers will provide a detailed description of expenditure plans when the Estimates are debated.

The Province's 14.2 per cent expenditure growth compares favourably with other provinces and the federal government. Once again, the increase in expenditure closely matches the rate of growth in the provincial economy. Consequently during the past three years the Government's share of total output has not increased. In contrast, federal spending increased by 24 per cent in 1973-74 and a further increase of about 18 per cent is expected in 1974-75.

Federal and Provincial Spending for 1974-75

(percent)

	Increase over 1973-74
New Brunswick	16.6
Quebec	13.7
Ontario	14.2
Manitoba	19.7
Saskatchewan	21.5
Alberta	24.4
British Columbia	26.4
Federal Government	18.0

Source: Published budget figures available to date for provinces; and Ontario Treasury estimates for federal government spending.

Estimated Revenue Effects of Tax Changes

	(\$ million)
<i>Tax Cuts:</i>	
Enriched Tax Credits	- 70
Retail Sales Tax	- 43
Succession Duty	- 6
Corporation Taxes	- 21
Total Cuts	- 140
<i>Tax Increases:</i>	
Mining	+ 50
Stumpage Dues	+ 12
Land Transfer Tax	+ 60
Land Speculation Tax	+ 25
Total Increases	+ 147

Revenue Impact of Tax Changes

I estimate that the tax changes proposed in this budget will have little net impact on revenues. In 1974-75, I am forecasting budgetary revenues to grow at 12.1 per cent including the revenues from the land speculation tax.

Stable Deficits

The net cash deficit, so-called, is estimated at \$708 million in 1974-75, which is lower than last year. The budgetary deficit will increase from \$421 million in 1973-74 to \$625 million in 1974-75, while the non-budgetary deficit will decrease from \$300 million in 1973-74 to \$83 million in 1974-75.

The Province's net cash requirements will amount to about 1.3 per cent of Gross Provincial Product (GPP) in 1974-75, the lowest in five years. Throughout the past decade net debt as a percentage of GPP has remained well below the 9 per cent guideline recommended by the Ontario Committee on Taxation. In addition, it would now require less than six months' revenue to pay off the net debt, compared with nine months' revenue a decade ago. In other words, after a decade of financing rapid growth and expansion in essential public services, and financial aid to municipalities the financial integrity of the Province is as sound as ever.

Financial Management

Mr. Speaker, when I became Treasurer of Ontario some fifteen months ago I set myself the objective of reducing outstanding public debt. I am pleased to report that I accomplished a reduction in the outstanding public debt of \$225 million in 1973-74.

To assure the maintenance of the Province's high credit standing, our debt reduction program will be accelerated. In 1974-75 I am planning to retire \$99 million of maturing public debt. In addition, I intend to begin a special debt reduction program with a potential target value this year of \$350 million thereby providing a total target

Ontario's 1974-75 Financial Plan		
(\$ million)		
	Interim 1973-74	Estimated 1974-75
Budgetary Revenue	6,883	7,716
Budgetary Expenditure	7,304	8,341
Budgetary Deficit	421	625
Non-budgetary Deficit	300	83
Net Cash Requirements	721	708

for debt reduction of \$449 million. This program will be designed and conducted to minimize any disturbance of the market for our bonds. It will relieve pressure on Canadian capital markets and provide borrowing capacity for Ontario Hydro, private sector and local government financing.

Ontario's 1974-75 Debt Reduction Plan (\$ million)	
Cash Flows from Pension Plans	1,044
Less 1974-75 Cash Requirements	708
A. Surplus cash for retirement of outstanding public debt	336
Current liquid assets	993
Target liquid assets, April 1, 1975	880
B. Target rundown in Liquid Assets	113
Total target reduction in Public Debt (A + B)	449

Conclusion

Mr. Speaker, I have described a bold attack to meet the challenge of inflation. When the federal government joins Ontario with equally positive actions we can anticipate success in the battle against inflation.

To recapitulate, this budget:

- guarantees an annual income for those most in need;
- secures a fair return to the community from our natural resources;
- reduces the tax burden on the consumer;
- discourages speculation in land and real estate;
- encourages Canadian ownership of Ontario land and buildings;
- provides for a fairer distribution of the tax burden;
- shares Provincial revenues generously with local governments;
- strengthens the Province's financial planning; and
- introduces greater equity in the progressive Province of Ontario.

The measures proposed in the 1974 budget befit a strong and compassionate Province. I am confident that with these initiatives Ontario will remain in the forefront among progressive and dynamic jurisdictions anywhere in the world.

Appendix A

Details of Tax Changes

Retail Sales Tax Act

1. The following household and personal hygiene items will be exempt from the tax when purchased from a retail store for home consumption:

Dust and spot removers

Laundry bleaches, starch, blueing, pre-soaks, rinses, fabric softeners, borax and all other preparations for laundering clothes

Polishes, waxes and conditioners for floors and furniture

Powders and liquids for cleaning walls, floors, tiles, glass, metal, cooking utensils, ovens, sinks, rugs, upholstery, toilet bowls, drains and septic tanks

Shoe polishing and cleaning preparations

Soaps and detergents

Facial tissue

Toilet tissue

Toilet soaps and hand cleaning preparations

Personal deodorants

Toothpaste, tooth powders, toothbrushes (non-electric), denture adhesives, denture cleaners and dental floss

Shaving soaps and creams but not lotions

Sanitary pads and tampons

Babies' skin care preparations.

Effective: on a date to be prescribed following amendment to the Act.

2. All footwear sold at a price of \$30 or less will be exempt from the tax.

Effective: on a date to be prescribed following amendment to the Act.

Taxation of Mines

1. The Mining Tax Act, 1972

- The rate of the mining tax will be changed from the present 15 per cent to the following graduated rates:

Mining Profits	Marginal Tax Rate
\$	%
up to 100,000	0
100,000- 1 million	15
1 million-10 million	20
10 million-20 million	25
20 million-30 million	30
30 million-40 million	35
over 40 million	40

- Provisions will be introduced to treat any number of companies as associated in a taxation year if their separate existence is not solely for the purpose of carrying out the business in the most effective manner.

The above changes will apply with respect to fiscal years of companies ending after April 9, 1974. For fiscal years that include April 9, 1974, the increase or decrease in the mining tax that results from the rate changes will be prorated on the basis of the number of days of that fiscal year that is subsequent to April 9, 1974.

- All exploration and development expenses incurred by the taxpayer in Ontario prior to the commencement of production will be allowed as a deduction in computing the mining tax.

This change applies with respect to expenses incurred after April 9, 1974.

2. The Corporations Tax Act, 1972

- Corporations whose principal business is not mining or petroleum will be permitted to deduct 100 per cent of Ontario exploration and development expenses as incurred against any income.

This change applies with respect to Ontario exploration and development expenses incurred after April 9, 1974.

- The existing 3-year tax exemption for new mines will be repealed and replaced by provisions for accelerated depreciation for assets related to a new mine or a major expansion of an existing mine as defined in the Income Tax Act (Canada).

This change will be effective as of January 1, 1974 subject to transitional provisions.

- The depletion allowance will continue to apply automatically to all operators and non-operators. A uniform rate of $33\frac{1}{3}$ per cent will apply to all taxpayers.
- Mining taxes and mining royalties paid or payable to any jurisdiction will no longer be allowed as a deduction in computing taxable income.
- The mine and mill allowance provided in computing the paid-up capital tax will be repealed.

These last three changes apply with respect to fiscal years of corporations ending after April 9, 1974. For fiscal years that include April 9, 1974, the increase or decrease in the tax base will be prorated on the basis of the number of days of that fiscal year that is subsequent to April 9, 1974.

Crown Dues

The crown dues under The Crown Timber Act will be doubled. The new rates will be effective upon the filing of the amended regulations.

Small Business Tax Credit

All Canadian corporations qualifying for the small business deduction under the Income Tax Act (Canada) will be eligible for an income tax credit equal to 5 per cent of the increase in taxable paid-up capital allocable to Ontario over the previous high. The maximum credit available will be limited to 50 per cent of Ontario income tax payable, up to \$3,000 annually. Unused credit may be carried forward 5 years, subject to the limitation that the corporation still qualifies for the federal small business deduction.

This change applies with respect to active business income earned by corporations after April 9, 1974.

Venture Investment Corporations

- This new form of corporation will be encouraged to provide unsecured loans and equity to corporations qualifying for the federal small business deduction.
- Corporations investing in a VIC will be allowed to deduct such investment against their taxable income.
- Taxes on VIC income and capital gains will be deferred until distributed.
- Protection will be afforded the small business against loss of control.

Enabling legislation will be introduced in 1974.

Mortgage Investment Corporations

Provisions will be made in The Corporations Tax Act, 1972 to parallel the special tax treatment of MICs under the Income Tax Act (Canada) whereby the income from residential mortgages will pass through these corporations tax-free and will be taxed in the hands of their shareholders as interest rather than dividends.

This change applies with respect to fiscal years of corporations commencing on or after January 1, 1972.

Paid-up Capital Tax on Family Farm Corporations

- The paid-up capital tax on qualifying family farm corporations will be reduced to a flat amount of \$50 for each fiscal year.
- To qualify, the farm corporation must meet essentially the same conditions required for the forgiveness provisions under The Succession Duty Act for bona fide family farms.

This change applies with respect to fiscal years ending after April 9, 1974.

Succession Duty

Changes effective in respect of deaths occurring on or after midnight April 12, 1973.

1. *Family Farms*: Mortgages on farm property and promissory notes in respect of farm property will be allowable substitutes for real farm property for purposes of forgivable farm duty, subject to the following conditions:
 - the mortgagor is a member of the family;
 - the mortgage was given by the mortgagor as part of the sale of farming assets to him;
 - the land against which the mortgage is registered was in farming use at the time of death;
 - the general conditions of land use continue to be met for forgivable duty purposes; and
 - the above conditions apply generally in respect of promissory notes.

The changes noted above in respect of mortgages and promissory notes in respect of farm property will also apply to the once-in-a-lifetime gift tax exemption in respect of family farms.

2. *Farm Partnerships*: Changes will be made in the forgivable farm duty provisions to facilitate their application to family farm partnerships.

Changes in respect of deaths occurring after April 9, 1974:

1. *Basic Exemption:* The basic exemption below which an estate is not taxable will be raised to \$150,000 from \$100,000.
2. *Dependents, Orphans and Invalids*
 - The exemption for a surviving dependent child will be raised from \$2,000 to \$3,000 for each full year the child is under age 26.
 - The annual exemption for Orphans will be raised from \$4,000 to \$6,000 per year, for each full year the Orphan is under age 26.
 - The annual exemption for Invalids will be raised from \$4,000 to \$6,000 per year for each full year the Invalid is under age 71.

Land Speculation Tax

The Tax

A tax of fifty per cent (50%) on the increase in value of designated land between April 9, 1974 and the date of sale:

- Designated land includes all real property situate in Ontario except a Canadian resource property.
- The acquisition cost is the fair market value of the property on April 9, 1974 if owned at that time, or the actual cost if acquired thereafter.
- The increase in value is calculated as the difference between the proceeds of disposition and the acquisition cost of the property less eligible deductions.

Exempt Transactions

The following dispositions will not be subject to the land speculation tax:

- Disposition of the principal residence not exceeding ten acres of land.
- Disposition of the principal recreational property not exceeding twenty acres of land where the purchaser is a Canadian resident.
- Disposition of property where the vendor has complied with a subdivision agreement entered into with a municipality and has constructed residential or commercial premises, where the value of such premises is not less than forty per cent (40%) of the proceeds of disposition.
- Disposition of property where the vendor has purchased vacant land and has constructed residential or commercial premises and the value of such premises is not less than 40% of the proceeds of the disposition.

- Disposition of a property where the vendor has renovated the premises and made capital expenditures of not less than twenty per cent (20%) of his acquisition cost.
- Disposition of a family farm to another member of the family where the use is continued in farming.
- Disposition of a property used predominantly for commercial or industrial purposes, including tourist establishments.
- Disposition of a property to the Government of Ontario, the federal government, a municipality, or any agency thereof, by way of purchase or through expropriation pursuant to statutory authority.

Corporations

Where designated land forms more than fifty per cent (50%) of the assets of a corporation, any direct or indirect transfer of a controlling interest in such a corporation will be considered a disposition of designated land:

- This provision does not apply to farming corporations where shares are transferred within the family and the land continues in farm use.
- Where a corporation disposes of land to its shareholders in the course of winding up, such a disposition is exempt but the shareholders acquire the land at the acquisition cost of the corporation.

Eligible Deductions

Eligible deductions may be claimed in calculating the amount upon which the tax is levied. The following may be deducted in respect of expenditures incurred after April 9, 1974:

- Capital improvement costs.
- All other costs not to exceed a maximum of ten per cent (10%) of the acquisition cost for each year the land is held after April 9, 1974.

Family Farms and Farming Corporations

Family farm property will be exempt from the land speculation tax while it remains in the family and is used for farming purposes:

- The property will have a deemed acquisition cost of the fair market value on April 9, 1974 when owned by the family on that date, or the actual cost to the first member of the family who purchases it after April 9, 1974.
- When the family farm property is disposed of outside the family, in computing the amount upon which the tax is based, in addition to the eligible deductions, the vendor may claim a

farming deduction. This deduction is an amount equal to ten per cent (10%) of the acquisition cost compounded for each year the property remains in the family and is used for farming.

Statutory Lien

The land speculation tax will be administered by the Ministry of Revenue:

- under the Act, a statutory lien will attach to designated land when it is disposed of, unless the transaction is exempt, and will be a first charge in priority to others.

This tax will become effective for all dispositions made after April 9, 1974.

The Land Transfer Tax Act

- Changes to the land transfer tax become effective at 12:01 a.m., April 10, 1974.
- Non-residents of Canada will be required to pay a flat rate of twenty per cent (20%) on land purchases. Canadian residents will continue to pay land transfer tax at the existing rates of $\frac{3}{10}$ of 1 per cent on the first \$35,000 and $\frac{6}{10}$ of 1 per cent on the excess.
- A Canadian resident is any individual who is a Canadian citizen or landed immigrant and who is ordinarily resident in Canada.
- A non-resident will include any foreign incorporated or controlled corporation, association, partnership, syndicate or trust and any person who is not a Canadian resident.
- After April 9, 1974 all purchasers of land, in addition to the land transfer tax affidavit, must complete an affidavit of residency.
- During the period between April 9, 1974 and the date the changes come into force, a lien for the additional amount of the tax will apply in the case of non-resident purchasers. If the tax is not paid by the non-resident, the lien will be enforced. After the changes come into force, the transfer will not be registered unless the tax is paid.
- Penalty provisions for false affidavits will be provided.
- A review procedure under the Ministry of Revenue will be established to authorize rebates or deferrals of the additional tax paid by non-residents where appropriate.
- Where a non-resident acquires control of a corporation which owns land in Ontario, this will be deemed to be a transfer of land and the tax will apply.

Appendix B

Details of The Property Tax Stabilization Plan and Other Municipal Reforms

The Property Tax Stabilization Plan

The Municipal Unconditional Grants Act

1. The municipal unconditional per capita grant will be revised and enriched by reducing the number of population categories and increasing the rates of grant by approximately 12.5 per cent as illustrated in the table.

Municipal Unconditional Grants—1974 Schedule

Population Range	Rate of Grant
0- 5,000	$\$6.00 \times (\text{Pop.})$
5,001- 10,000	$\$ 30,000 + \$6.40 \times (\text{Pop. over } 5,000)$
10,001- 15,000	$\$ 62,000 + \$6.60 \times (\text{Pop. over } 10,000)$
15,001- 20,000	$\$ 95,000 + \$6.80 \times (\text{Pop. over } 15,000)$
20,001- 25,000	$\$ 129,000 + \$7.00 \times (\text{Pop. over } 20,000)$
25,001- 50,000	$\$ 164,000 + \$7.20 \times (\text{Pop. over } 25,000)$
50,001- 75,000	$\$ 344,000 + \$7.40 \times (\text{Pop. over } 50,000)$
75,001-100,000	$\$ 529,000 + \$7.60 \times (\text{Pop. over } 75,000)$
100,001-200,000	$\$ 719,000 + \$7.80 \times (\text{Pop. over } 100,000)$
200,001 or more	$\$1,499,000 + \$8.00 \times (\text{Pop. over } 200,000)$

2. Payments to municipalities in recognition of expenditures for the provision of police services will be increased in 1974 from \$3.00 to \$5.00 per capita.
3. The unconditional per capita grants will be further enriched by the use of population data as defined below.

The Regional Municipal Grants Act

1. The regional municipal per capita grant will be enriched by 10 per cent from \$8.00 to \$8.80. An additional \$.20 per capita will be included for all regional governments in recognition of the fact that they are expected to assume greater responsibilities for local planning. The total 1974 per capita grant, therefore, will amount to \$9.00.

2. Payments to regional municipalities in recognition of expenditures for the provision of police services will be increased:
 - (i) from \$5.00 to \$7.00 per capita where a regional municipal police service is provided; and
 - (ii) from \$3.00 to \$5.00 per capita where area municipalities provide their own law enforcement.
3. The regional municipal per capita grants will be further enriched by the use of population data as defined below.

Population

1. All Provincial grants to local governments and agencies based on total municipal population will use a population equal to:
 - (i) the 1973 population as determined under Sections 23 and 23(a) of *The Assessment Act*, plus
 - (ii) an adjustment to partially reflect temporary population in accordance with the method used in *The Property Tax Stabilization Grants Act*, the sum of (i) and (ii) being subject to
 - (iii) a minimum of 99 per cent and a maximum of 120 per cent of the population used to determine the 1973 Resource Equalization Grant entitlement under *The Property Tax Stabilization Grants Act*
 - (iv) municipalities without permanent population will not receive a deemed temporary population.

General Support Grant

1. Each municipality will receive an enriched General Support Grant ranging from 3 to 9 per cent of its 1973 Net General Dollar Levy, depending upon the rate of increase in its 1974 gross expenditure over that in 1973. The following table illustrates the revised rate schedule for selected increases in gross expenditure.

Spending Growth Rate	General Support Grant Rates	
	1974	1973
(%)	(%)	(%)
8 or less	9	6
9	8	5
10	7	4
11	6	3
12	5	2
13	4	2
14 or more	3	2

2. The definition of the Net General Dollar Levy for purposes of the General Support Grant for each municipality will be broadened to

include its 1973 entitlement to the General Support Grant, the Resource Equalization Grant and the Northern Ontario Special Support Grant.

3. The new Regional Municipalities of Durham, Haldimand-Norfolk, Halton, Hamilton-Wentworth and Peel, and their area municipalities, will receive a payment in 1974 equal to 7 per cent of their 1974 Net General Dollar Levies.

Northern Ontario Special Support Grant

1. Each municipality in the Northern part of the province will receive an additional payment equal to an enriched rate of 12 per cent of its 1973 Net General Dollar Levy as defined for the General Support Grant.

Resource Equalization Grant

1. Each local and area municipality will receive a payment based on 60 per cent of its relative deficiency times its 1973 Net General Dollar Levy, subject to an increased maximum of 25 per cent of its 1973 Net General Dollar Levy.
2. The relative assessment deficiency will be the amount by which a municipality's per capita equalized assessment falls below a standard of \$10,100, divided by \$10,100. The standard has been raised from \$10,000 to \$10,100 to reflect the increase in the average per capita equalized assessment in the province.
3. For purposes of the Resource Equalization Grant, the 1973 Net General Dollar Levy will be broadened to include the 1973 entitlement to the General Support Grant, the Resource Equalization Grant and the Northern Ontario Special Support Grant. Furthermore, those former mining municipalities which are unduly constrained by the 25 per cent limit will also receive 50 per cent of their 1972 formula mining revenue payments. All former mining municipalities will again receive the guarantee of 105 per cent of their 1973 formula mining revenue payments.

Assistance to New Regional Governments

1. The new regional municipalities of Durham, Haldimand-Norfolk, Halton, Hamilton-Wentworth and Peel will become entitled to the new regional municipal grant of \$9.00 per capita compared to the average \$5.95 per capita the municipalities concerned received in 1973.
2. Similarly, these regional municipalities will be entitled to \$7.00 per capita towards policing as compared to the \$3.00 per capita paid in 1973 to those municipalities with their own law enforcement.
3. These new municipalities will also become eligible for density grants.

4. Transition to regional government involves certain costs of a temporary nature towards which special assistance will be provided; in addition, the Province will protect certain groups of taxpayers against undue shifts in tax burdens.

Public Library and Museum Grants

1. Library grants will be enriched by approximately \$2.5 million.
2. Museum grants will be enriched by approximately \$0.4 million.

Transit Grants

1. The subsidies on the operating deficits of municipal transit systems will be 50 per cent.
2. The subsidy ceilings determined on the basis of population and number of passengers will be removed.
3. These enrichments will cost the Province an additional \$14.5 million in 1974.

Municipal Water and Sewerage Grants

1. The grant of 15 per cent of the capital costs for regional or area water and sewerage projects will be made available to:
 - (i) all regional municipalities
 - (ii) all municipalities not in a regional municipality that have undergone substantial restructuring.
2. The stipulation of Provincial ownership will be eliminated.
3. The eligible capital costs include all treatment and pumping facilities as well as trunk collector or distributional systems considered to be regional or area in scope.
4. The estimated cost of these enrichments is \$11.1 million in 1974.

Grants to be Deconditionalized in 1974

Name of Grant	Estimated Value in 1974-75 (\$ thousand)
1. L.C.B.O. Payments for Enforcement of Liquor Control and Liquor Licence Acts	2,268
2. Municipal Parks Assistance	439
3. Local Planning Activities	285
4. Weed Control	71
5. Municipal Pounds Assistance	70
6. Municipalities Unduly Burdened by Children's Aid Society Costs	50
7. Arena Program Manager	46
8. Remedial Works	5
9. Municipal Drainage	3
GRAND TOTAL	\$3,237

Note: These grants are deconditionalized effective April 1, 1974.

Grants Proposed for Deconditionalization

Name of Grant	Estimates for 1974-75 (\$ thousand)
1. Library Grants	15,705
2. Museum Grants	677
3. Community Programs of Recreation	1,935
4. Elderly Persons' Centres	2,037
5. Ambulance and Related Emergency Services	2,833
6. Community Health Facilities	240
7. District Health Councils	550
8. Local Health Agencies	26,598
9. Outbreaks of Diseases	2,301
10. Venereal Disease Control	154
11. Access Roads to Provincial Parks	125
12. Conservation Authorities—Administration	3,450
13. Forest Management	125
14. Conveyance of Prisoners	100
15. Clarification of Boundaries of Land Parcels	20
GRAND TOTAL	\$56,130

Appendix C

The Ontario Economic Outlook

Inflation

During the past year inflation has been a growing world problem, with rates of advance in consumer and wholesale prices far surpassing historical peacetime standards. In 1973, the Canadian Consumer Price Index advanced by 7.6 per cent—the largest yearly advance since 1951. While the rise in prices in Canada was comparable to that of France and Germany, and far better than that of the UK (9.2 per cent) and Japan (11.7 per cent), it was significantly above the 6.1 per cent recorded in the U.S. With regard to wholesale price increases, Canada's performance was clearly worse than that of most of her major trading partners.

Consumer Prices, Canada (percent increases)

	1971	1972	1973	Fourth Quarter Increases 73/72
Food	1.1	7.6	14.6	17.4
Housing	4.5	4.7	6.4	6.9
Clothing	1.5	2.6	5.0	6.6
Transportation	4.1	2.6	2.6	5.1
Health and Personal Care	2.1	4.8	4.8	5.9
Recreation and Reading	3.4	2.8	4.2	5.1
Tobacco and Alcohol	1.7	2.7	3.2	2.5
All Items	2.9	4.8	7.6	9.1

Wholesale Prices, Canada (percent increases)

	1971	1972	1973	Fourth Quarter Increases 73/72
Vegetable Products	−0.6	5.1	42.4	54.9
Wood Products	4.5	10.1	15.5	11.1
Non-Metallic Minerals	4.6	3.5	9.4	15.9
Chemical Products	5.4	3.2	6.3	10.3
Iron and Non-Ferrous Metals	−2.3	1.5	15.3	20.4

Source: Statistics Canada.

In 1972 and 1973 food price increases were the major factor in the overall rise in the Consumer Price Index. While food price increases continue to dominate price behaviour, other components of the cost of living have been accelerating rapidly, notably housing and clothing. At the wholesale level, prices have been advancing at an extremely rapid pace for all the major components.

Among the factors contributing to Canada's recent experience with inflation are:

- A strong coincidental industrial boom in major trading nations during 1972 and 1973;
- Oil price increases and supply interruptions;
- A substantial realignment in world currencies;
- The lifting of U.S. price controls;
- Poor agricultural harvests, including sugar, cotton, oilseeds, feed grains, fish protein and fruit; and
- Rapid increases in federal government spending.

The immediate outlook for inflation in Canada and other countries is dominated by considerations related to the recent dramatic rise in crude oil prices. Oil, of course, is a major form of energy in industrial production, transportation and heating. It is also the basic material required to produce numerous chemicals, plastics, synthetic resins, and fertilizers which enter into the production of a vast array of intermediate and final goods. Hence, changes in oil prices filter through the entire economic system in a more pervasive fashion than a change in the price of most other basic raw materials.

The pressures which built up in 1973 as a result of rapid advances in wholesale prices and accelerating wage increases will put strong upward pressure on costs and prices in 1974. Wage demands this year are expected to be particularly strong.

While it is difficult to assign precise magnitudes to changes in the general level of prices this year, it appears that the overall consumer price index for Canada could rise 10 per cent or more, compared with 7.6 per cent in 1973.

Summary of 1974 Economic Outlook for Ontario

The following outlook for Ontario takes account of the recent decision at the federal-provincial energy conference on March 27th to raise the price of oil to \$6.50 from \$4.00 per barrel. The flow of revenue to the oil producing provinces is likely to result in a substantial increase in spending and incomes in the rest of Canada including capital outlays for energy resource development. Also there will be substantial revenue gains via equalization to the lower income provinces.

The resulting increased demand for Ontario's output will tend to offset some of the adverse effects on growth and employment in Ontario resulting from the oil price increase.

- Real Gross Provincial Product (GPP) is expected to advance by 5.0 per cent in 1974.
- The unemployment rate is expected to rise moderately to 4.5 per cent.
- Consumer prices could advance by 10 per cent or more in 1974 and the GNP price deflator by 7.7 per cent.
- The main bright spot in the 1974 outlook is strong investment expenditure, particularly in the manufacturing sector.
- Consumer spending is expected to remain strong, particularly if credit conditions remain relatively easy.

The Ontario Economy 1972-74

	1972	1973	1974	72/71	73/72	74/73
	(\$ billion)			(percent)		
Gross Provincial Product	41.9	48.1	54.3	10.9	14.7	13.0
GPP (constant 1961 dollars)	29.1	31.2	32.8	6.0	7.2	5.0
Prices (1961 = 100)	144.2	154.4	166.3	4.6	7.1	7.7
Private and Public Investment	8.2	9.7	11.2	10.5	18.3	15.0
Machinery and Equipment	3.0	3.6	4.2	7.2	21.0	17.0
Total Construction	5.2	6.1	6.9	13.0	17.3	13.0
Non-Residential	3.2	3.7	4.3	6.2	14.5	16.0
Residential	2.0	2.4	2.6	24.2	22.0	9.0
Retail Sales	13.0	14.5	16.3	9.5	11.9	12.0
Personal Income	34.4	39.2	44.8	12.2	14.0	14.4
Corporate Profits (before taxes)	4.8	6.5	7.0	20.0	36.0	7.0
Labour Force (000's)	3,381	3,510	3,636	4.1	3.8	3.6
Employment (000's)	3,219	3,367	3,472	4.5	4.6	3.1
Unemployment (% of labour force)	4.8	4.1	4.5	—	—	—
Housing Starts (thousands of units)	102.9	110.5	110.0	14.4	7.3	—

Budget Papers

Presented by the
Honourable John White
Treasurer of Ontario
for the information of the
Legislative Assembly of Ontario
for the fiscal year 1974-75

- A Income Security and Tax Reform
 in Ontario
- B Financing Development of Local
 Government
- C Ontario Finances

Budget Paper A

Income Security and Tax Reform in Ontario

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Income Security and Tax Reform in Ontario

I Introduction

In 1969 the Ontario Government issued its white paper on provincial-municipal tax reform and in 1970 advanced a series of proposals for reform of the national tax system.¹ Since then, the Government has consistently advocated the use of tax credits to relieve tax burdens on low-income people and to improve the fairness of the tax system. In addition, the Ontario Government recognized from the outset that tax credits could be used effectively in moving towards a comprehensive guaranteed income system.

As a first stage towards these reforms, the Ontario Property Tax Credit was introduced in 1972. This significantly advanced the fairness of the property tax burden by relating tax relief to ability to pay.² It was the first comprehensive property tax credit system in North America based uniquely on ability to pay. As a second stage, the Ontario Government enriched the benefits provided through the tax credit mechanism by introducing the Sales Tax Credit and Pensioner Tax Credit in 1973.³ Third, the 1974 budget contains further initiatives towards the long-run goal of a comprehensive guaranteed annual income system.

The three initiatives proposed in the 1974 budget will increase the incomes of pensioners and the disabled, improve and enrich Ontario tax credit relief and provide additional health benefits to those in need through the following measures:

- A *Guaranteed Annual Income System (GAINS)* will be introduced for the elderly, blind and disabled. It will guarantee an income level of \$50 per week for a single person and \$100 per week for a married couple. The value of this program will be \$75 million in this fiscal year.

¹Hon. Charles MacNaughton, "Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969* (Toronto: Department of Treasury and Economics, 1969); and Hon. Charles MacNaughton, *Ontario Proposals for Tax Reform in Canada* (Toronto: Department of Treasury and Economics, 1970).

²Hon. W. Darcy McKeough, *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972); and "Ontario's Property Tax Credit Plan", *Ontario Budget 1972*, *ibid.* See also Staff Paper, *The Analysis of Income and Property Taxes in Guelph*, Ontario Tax Studies 7 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

³Hon. John White, *Ontario Budget 1973* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973); and "Ontario's Revenue Structure", *Ontario Budget 1973*, *ibid.*

- *The Ontario Tax Credit System* will be enriched by \$70 million, raising the total benefits to Ontario taxpayers to \$375 million. The Property Tax Credit will be doubled from \$90 to \$180 and the Pensioner Tax Credit will be increased to \$110. The taxable income offset will also be adjusted from 1 per cent to 2 per cent to ensure that these benefits are distributed according to ability to pay.
- *Free Prescription Drugs* will be available to all recipients of the federal Guaranteed Income Supplement and all recipients of social assistance. The total value of this program is about \$20 million.

These three reforms will increase tax relief to low-income individuals and families actively participating in the Ontario economy. The enriched Property Tax Credit will more than offset the increased costs of home heating because of the increase in oil prices. Those permanently outside the work force because of age or physical disability will enjoy an improved level of income and free access to essential drugs. These measures support Ontario's drive towards a more equitable distribution of income and an improved social security system.

A related action strongly advocated by the Ontario Government was reform of the Canada Pension Plan. The proposals advanced by Ontario were agreed to in large measure by all provinces and subsequently implemented by the federal government. They will result in increases in basic pensions, equal treatment for widows and widowers, full benefits for working pensioners and other improvements.⁴

II A Guaranteed Annual Income System in Ontario

Commencing July 1974, the Government of Ontario will establish a guaranteed annual income system for Ontario citizens who have reached age 65, or who are disabled or blind and dependent on provincial social assistance. The new program, to be known as GAINS (Guaranteed Annual Income System), will contain three important features:

- *Enrichment*: the elderly, disabled and blind will receive a significant enrichment in income support currently provided through federal and provincial programs:

⁴Hon. Charles MacNaughton, *Review of Issues in Amending the Canada Pension Plan* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972); Hon. John White, *Ontario Proposals for Amending the Canada Pension Plan* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973); and Hon. René Brunelle, *Notes on the Canada Pension Plan* (Toronto: Ministry of Community and Social Services, 1973). The detailed analysis underlying Ontario's proposals is documented in Staff Paper, *PENSIM: Canada Pension Plan Simulation Model*, Ontario Tax Studies 6 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

- *Parity*: the program will establish for the first time parity between levels of income support provided to those who have reached retirement age and those who are unable to work due to disability or blindness; and
- *Value*: the guaranteed income levels will be escalated periodically in order to maintain the purchasing power of benefits over time.

Initially, the guaranteed annual income will be set at \$5,200 for a couple and \$2,600 for an individual. These guaranteed levels will be raised in the future by discrete amounts.

The total value of GAINS will be \$75 million in this fiscal year. With the introduction of this new program it will be possible to discontinue the Pensioner Assistance Grant which has been in effect as an interim measure in the past year. The GAINS program will be broadened to other groups as resources become available.

At present, low-income elderly people receive a monthly income through the federal Old Age Security and Guaranteed Income Supplement (OAS/GIS). The disabled and blind who are below age 65 and unable to participate in the labour force are supported through Provincial and municipal social assistance. A major anomaly in the present income security system exists, however, in that those who are unable to work due to disability or blindness receive lower benefits than those who have reached retirement age.⁵

Value of Ontario's GAINS Program
(dollars)

Table 1

	Weekly Guaranteed Income	Monthly Guaranteed Income	Annual Guaranteed Income
	\$	\$	\$
Single Person	50	216.67	2,600
Married Couple	100	433.33	5,200

Amount

Ontario's GAINS program, combined with existing federal and Provincial income support programs, will guarantee an income of \$50 a week for a single person and \$100 a week for a married couple. Individuals or couples with incomes below these levels will receive monthly cheques from the Ontario Government which will raise their incomes up to the guaranteed levels. On top of this guarantee, GAINS recipients will be entitled to the full benefits of Ontario's tax credit system.

⁵The GAINS payment of \$100 a week ensures a pensioner couple a standard of living well above the adjusted poverty levels established by the Economic Council of Canada.

Eligibility

Eligibility for benefits under the GAINS program will be based on three simple criteria:

- *Age or Disability:* Eligible persons must have reached age 65, or be disabled or blind and eligible for Provincial social assistance under the Family Benefits program.
- *Residence:* After July 1, eligible persons must have been resident in Canada for five years and in Ontario for one year.
- *Income:* Current income of eligible persons must be below the GAINS guaranteed levels. *Ontario's Property, Sales and Pensioner Tax Credits will not be counted as income.*

Impact

More than 310,000 people will receive Ontario GAINS cheques in July 1974. This will include 270,000 pensioners who are eligible for the federal Guaranteed Income Supplement (GIS) and a further 10,000 low-income elderly who are ineligible for GIS because they do not meet the federal residency requirement of ten years. No fewer than 120,000 pensioners will receive the maximum GAINS entitlement.

Beneficiaries of GAINS, July 1974

Table 2

	Number of persons
GIS Pensioners	270,000
Other Elderly People	10,000
Disabled Blind Provincial Social Assistance Recipients	31,000
	311,000

The following tables and charts illustrate the monthly GAINS payment to single and married GIS pensioners at various income levels.

GAINS Benefits for a Single Pensioner

Table 3

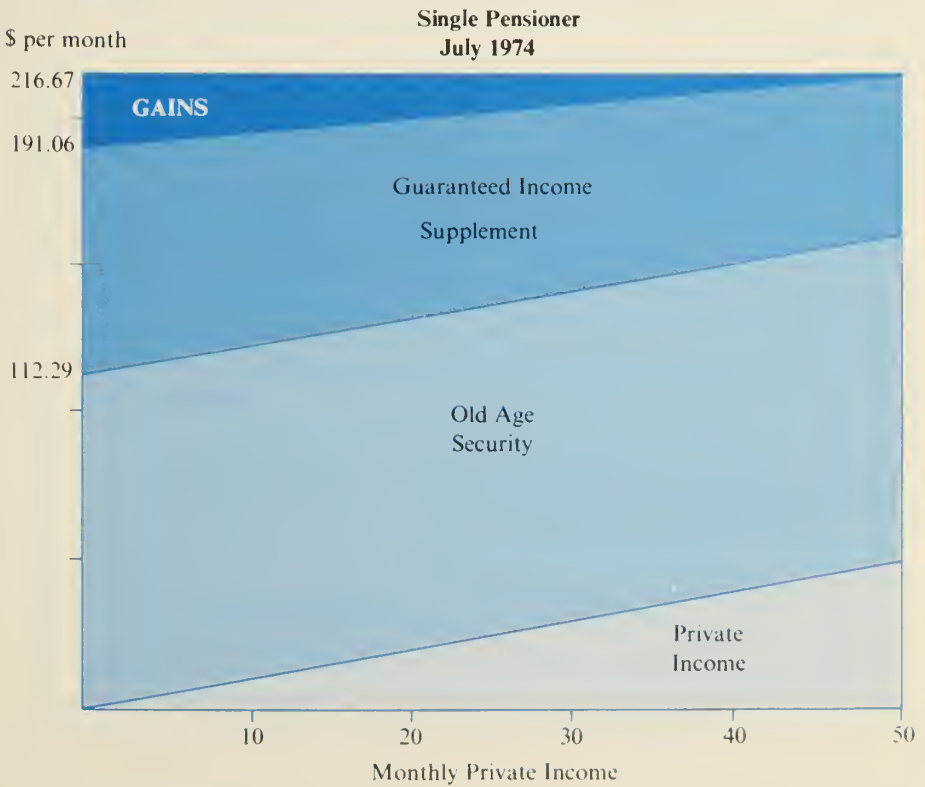
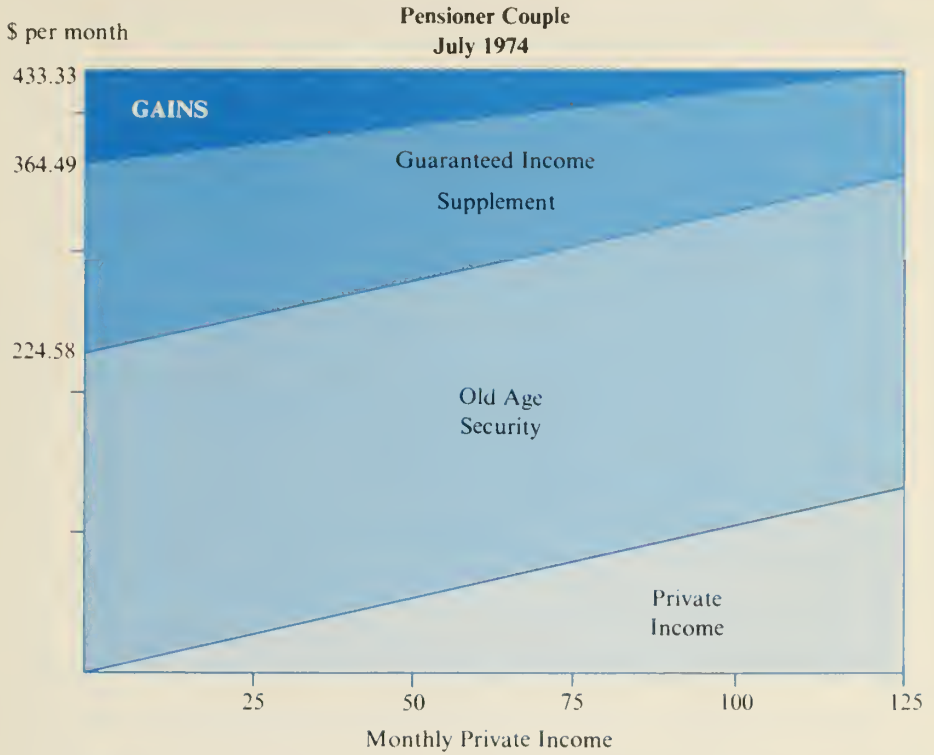
Monthly Benefits in July 1974

Private Income	OAS/GIS	GAINS	Guaranteed Income in Ontario
\$	\$	\$	\$
0	191.06	25.61	216.67
10	186.06	20.61	216.67
20	181.06	15.61	216.67
30	176.06	10.61	216.67

Note: It is assumed that July 1st OAS/GIS levels will be escalated by 2 per cent over the April 1st levels.

Components of Guaranteed Income

Chart 1



For example, a single GIS pensioner with a private pension income of \$20 a month will receive an Ontario GAINS cheque of \$15.61 in July. A GIS couple with private income of \$60 a month will receive a GAINS payment of \$38.84 in July.

GAINS Benefits for a Pensioner Couple

Table 4

Monthly Benefits in July 1974

Private Income	OAS/GIS	GAINS	Guaranteed Income in Ontario
\$	\$	\$	\$
0	364.49	68.84	433.33
20	354.49	58.84	433.33
40	344.49	48.84	433.33
60	334.49	38.84	433.33
80	324.49	28.84	433.33
100	314.49	18.84	433.33

Note: It is assumed that July 1st OAS/GIS levels will be escalated by 2 percent over the April 1st levels.

With the introduction of GAINS, blind and disabled people will be entitled to the same income guarantee as those who are over age 65. At present, maximum social assistance levels for the disabled and blind range from \$119 a month to \$185 a month depending on need. The GAINS program will increase these benefits to \$217 a month for a single person.

Disabled/Blind Beneficiaries of GAINS

Table 5

Number of Persons	
Disabled	30,000
Blind	1,000
	31,000

III Fairer Distribution of Tax Credit Benefits in Ontario

The improved 1974 Ontario Tax Credit System is designed to ensure a fairer distribution of tax credit benefits and to offset the increased costs of home heating for low-income families and individuals.

Federal indexing of the income tax system for inflation, while a desirable reform in itself, has the side effect of partly neutralizing the dynamic quality of the Ontario Tax Credit System which was designed to

progressively concentrate benefits to those most in need.⁶ Under indexing, the level of relief is shifted to the middle and upper-income groups. This weakens the redistributive thrust of the program, increases its cost and makes it more difficult under the existing formula to enrich the program over time. On the other hand, indexing has the positive effect of increasing the Ontario Sales Tax Credit.

The comparison of the level of Ontario's Sales Tax Credit available in 1973 and indexed for inflation in 1974 is shown in Table 6. For example, the taxpayer claiming only the single exemption has an increase in Sales Tax Credit from \$16.00 to \$17.06. For the married couple with two children under 16 years of age, the Sales Tax Credit is increased from \$36.00 to \$38.38.

Ontario Sales Tax Credit = 1% of Exemptions
(dollars)

Table 6

	1973	1974
Single Exemption	16.00	17.06
Married Couple	30.00	31.98
Child under 16	3.00	3.20
Child 16 and over	5.50	5.86
Elderly Single Person	26.00	27.72
Elderly Couple	40.00	42.64
Blind or Disabled Single Person	26.00	27.72
Blind or Disabled Married Couple	40.00	42.64

Improvements in the Tax Credit Formula

Ontario's tax credit formula will be improved in three important ways.

- *The Property Tax Credit will double from \$90 to \$180.* This enriched benefit is designed to cushion the impact on home heating costs of the increase in oil and gas prices. It will more than offset the increase in heating bills next winter for those low-income families and individuals least able to bear such a cost increase.
- *The other existing tax credits will also be increased.* The Sales Tax Credit grows from an average of \$35 to \$38, while the pension tax credit will be increased from \$100 to \$110.
- *The maximum tax credit entitlement will be raised from \$400 to \$500 and the offset rate will be increased from one to two per cent of taxable income.* These two improvements will

⁶Staff Paper, *The Dynamic Impact of Indexing the Personal Income Tax*, Ontario Tax Studies 9 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

ensure that maximum benefits flow to those most in need of tax relief.

In 1974, the new formula is expected to deliver \$375 million or more in tax relief to Ontario residents, in comparison to \$305 million in 1973. This enrichment and the composition of the 1974 tax credit formula is shown in Table 7.⁷

The Ontario Tax Credit System

Table 7

	Tax Credit Formula	
	1973	1974
Basic Property Tax Credit	\$90	\$180
Pensioner Tax Credit	\$100	\$110
Sales Tax Credit (average)	\$35	\$ 38
Maximum Total Credit	\$400	\$500
Taxable Income Offset Rate	1%	2%
Total Tax Credit Benefits	\$305 m.	\$375 m.

Notes: 1. The Ontario Sales Tax Credit equals 1 per cent of personal income tax exemptions.

2. The offset rate is calculated on taxable income as reported for income tax purposes.

The introduction of the improved tax credit formula for 1974 provides substantially increased benefits to those who need them most. This large enrichment and fair sharing is illustrated in the following examples and in Table 8.

For the elderly married couple in receipt of GAINS and paying \$350 property taxes, Ontario's total 1974 credits will amount to \$368 as compared to \$265 in 1973.

	1973 Credits	1974 Credits
Property Tax Credit	\$125	\$215
Pensioner Tax Credit	100	110
Sales Tax Credit	40	43
Total Tax Credits	\$265	\$368
Less: Taxable Income Offset	nil	nil
Total Tax Credit Refund	\$265	\$368

For a family of four, paying \$2,500 annually in rent (\$208 a month) and living on an income of \$8,000 per year, Ontario's total 1974 credits will amount to \$194 as compared to \$139 in 1973.

⁷For a full explanation of the Ontario Tax Credit System see Hon. John White, "Ontario's Revenue Structure", *Ontario Budget 1973*, *op cit*.

	1973 Credits	1974 Credits
Property Tax Credit	\$140	\$230
Sales Tax Credit	36	38
Total Tax Credits	\$176	\$268
Less: Taxable Income Offset	37	74
Total Tax Credit Refund	\$139	\$194

Fair Shares Under the Ontario Tax Credit System

Table 8

Example 1. Married taxpayer with 2 children under 16.
Property tax of \$500 or rent of \$2,500.

(dollars)

Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$4,000	\$ 0	\$178	\$268
5,000	612	172	256
6,000	1,552	163	237
8,000	3,432	144	199
10,000	5,312	125	162
12,000	7,192	106	124
15,000	10,012	78	68

Example 2. Single taxpayer, 65 years of age.
Property tax of \$300 or rent of \$1,500.

(dollars)

Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$2,000	\$ 0	\$248	\$318
3,000	128	246	315
4,000	1,128	236	295
5,000	2,128	226	275
6,000	3,128	216	255
8,000	5,128	196	215
10,000	7,128	176	175
12,000	9,128	156	135
15,000	12,128	126	75

- Notes: 1. It is assumed that the married taxpayer with 2 children under 16 claims the employment expense allowance, the standard \$100 deduction and 6% of gross income as contributions to the Unemployment Insurance Fund and all pension contributions.
2. The single taxpayer over 65 years of age receives the single and aged exemption and the \$100 deduction.
3. The 1973 system is applied as though it were in effect in 1974 with personal exemptions indexed at 6.6% over their 1973 levels.

Example 3. Married Couple, both 65 years of age.
Property tax of \$350 or rent of \$1,750.
(dollars)

Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$2,000	\$ 0	\$268	\$368
3,000	0	268	368
4,000	0	268	368
5,000	636	262	355
6,000	1,636	252	335
8,000	3,636	232	295
10,000	5,636	212	255
12,000	7,636	192	215
15,000	10,636	162	155
20,000	15,636	112	55
25,000	20,636	62	0

Notes: 1. The married taxpayer over 65 years of age receives the married and aged exemption and the \$100 deduction.
2. The 1973 system is applied as though it were in effect in 1974 with personal exemptions indexed at 6.6% over their 1973 levels.

Ontario's tax credit payments to low-income families and individuals have increased each year since the program began in 1972. In that year, about \$72 million in benefits went to the under \$5,000 income group. In 1973 tax credits to this low-income group almost doubled benefits to \$140 million. And the improved formula for 1974 will generate a further substantial enrichment to over \$180 million. This level of 1974 Ontario tax credits balances off the property taxes and income taxes — both federal and Provincial — paid by these low-income citizens.

Tax credit benefits have also increased substantially for the \$5,000 to \$10,000 income class—a group which includes one out of every four Ontario families. Total credits to taxpayers in this income range were about \$71 million in 1972, rose to \$100 million in 1973 and will increase further to \$122 million in 1974. This income class accounts for \$250 million in property taxes, \$330 million in Ontario income tax and over \$1 billion in federal income tax.⁸

The 1974 tax credit formula has been designed to provide a break-even point in benefits at the \$13,000 income level, which is about the average income in Ontario. Accordingly, the \$10,000 to \$12,000 income group will receive \$9 million in credits in addition to the amount they received in 1973. The taxpayer groups with incomes above this \$13,000 average will receive about the same benefits—\$34 million in 1974

⁸The quantitative impact of the Ontario Tax Credit System has been tested using the Ontario TISIM model. This model examines a sample of 1972 income tax records and tests the implications of each of the Ontario Tax Credit formulas within a simulated economic environment of the year to which the formula applies. For another application of the TISIM model, see Staff Paper, *The Dynamic Impact of Indexing the Personal Income Tax*, *op. cit.*

versus \$36 million in 1973. In this way, a larger share of the total fund of tax credits can be distributed to the elderly and to lower-income families in Ontario.

Distribution of Total Ontario Tax Credits

Table 9

	1972	1973	1974
	(\$ million)		
Gross Income			
Up to \$5,000	72	140	182
5,000 – 10,000	71	101	122
10,000 – 12,000	19	28	37
12,000 and over	18	36	34
Total Payments	180	305	375
Average Credit per Household	\$ 78	\$127	\$150

Source: Ontario Treasury computer analysis of the preliminary sample of 1972 income tax records for residents of Ontario, TISIM III.

Note: The distribution of total credits among income groups is estimated assuming the full employment performance of the Ontario economy.

IV Ontario Prescription Drug Benefit Program

The third element of Ontario's three-part action plan for fair sharing is a \$20 million prescription drug benefit program.

Effective September 1, 1974, free prescription drugs will be made available to needy pensioners and Provincial social assistance recipients. The Province is also requesting all municipalities to provide free prescription drugs to municipal welfare recipients. As well, the Province will consider, in the near future, extending this program to other people in need. Full details of this new program will be announced by the Minister of Health.

The free drug program will complement the several measures introduced by the Ontario Government in 1972 to reduce the burden of health

Beneficiaries of Free Prescription Drugs

Table 10

	Number of Persons
GIS Pensioners	334,000
Provincial Social Assistance Recipients	204,000
Municipal Social Assistance Recipients	103,000
	641,000

Note: Eligible GIS pensioners will represent 95 per cent of all GIS pensioners.

care costs. These measures included the abolition of health insurance premiums for persons aged 65 and over, the broadening of premium assistance to low-income families and individuals and the introduction of extended care for the elderly in nursing homes and homes for the aged.

With the introduction of this program, low-income pensioners will be entitled to a full range of health care services at no cost to themselves.

V Summary and Conclusion

The \$165 million in social benefits outlined in this paper will enable less prosperous citizens to obtain a fairer share of the prosperity in Ontario—a province with an enviable level of wealth. They will ensure that Ontario's elderly citizens enjoy sufficient income to live out their retirement years. They guarantee equal income benefits to the blind and disabled. And they protect low-income families and individuals against the rise in heating costs.

The current advances have highlighted additional issues to which the Ontario Government will direct urgent attention in the coming months. The need to extend the GAINS program to those approaching retirement is an obvious area of pressing priority. The Government is going to consider, in the coming year, extension of this program to other groups.⁹

The Ontario Government intends to build on the major advances made this year to achieve in the most effective way a truly comprehensive guaranteed income system.

⁹See forthcoming Staff Paper, *Progress Towards A Comprehensive Guaranteed Income System in Ontario*.

Income Support for Ontario Pensioners

The Ontario Government presently provides over \$200 million in direct benefits to pensioners in Ontario through the Property, Sales and Pensioner Tax Credits and free health insurance premiums. The introduction of GAINS, improved tax credit benefits and free prescription drugs will increase the Ontario Government's support to the elderly to \$275 million on an annual basis.

The monthly value of this income support for needy pensioners in Ontario will reach \$260 for a single person and \$492 for a married couple in the 1974 fiscal year, depending on property tax paid.

Value of Income Support for Needy Pensioners in Ontario, 1974
(dollars per month)

Table 11

	Single Person	Married Couple
Guaranteed Income	\$216.67	\$433.33
Pensioner Tax Credit	9.17	9.17
Sales Tax Credit	2.31	3.55
Property Tax Credit	17.50	17.50
Free Health Premiums	11.00	22.00
Free Prescription Drugs	3.33	6.66
Total Monthly Value	\$259.98	\$492.21
Total Annual Value	\$3,120	\$5,907

Note: Property tax relief is calculated assuming property taxes of \$300 per year or rent of \$1,500 per year.

Budget Paper B

Financing Development of Local Government

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Financing Development of Local Government

I Introduction

During the past five years, local government in Ontario successfully met the challenges arising from rapid growth. The increasing demand for local services, and accelerating urban development have all been met without producing a serious imbalance between tax levels in different parts of the province. In addition, the range of local services has been maintained and extended while the level of property taxes has stabilized.

This record in large part reflects the impact of Ontario's two-part reform program, initiated in 1969, for improving the structural and financial basis of local government.¹ This paper documents the record of the local government sector over the past five years with respect to local expenditures, property taxation, borrowing and Provincial transfers. It also looks ahead to the next three years and presents a set of proposals to maintain the financial viability of the local sector.²

The outlook for local government finance raises the essential question of the capacity of local government revenues and enriched Provincial transfers to successfully accommodate even moderate levels of local spending growth. It is clear that new measures are required to bolster local revenue capacity while at the same time ensuring a fair and even distribution of the total tax burden in Ontario.

II Overview of Local Government: 1968-73

Local government in Ontario has progressed within an environment of dynamic social and economic change. During the past five years there has been a high rate of growth in the economy, accompanied by strong urban development pressures.

¹Hon. Charles MacNaughton, "Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969* (Toronto: Department of Treasury and Economics, 1969).

²Hon. John White, *Fiscal Policy Management & Tax Sharing Reform*, Statement to the Meeting of Ministers of Finance, Ottawa, 1973.

During the period, there was a high rate of new household formation and a high rate of economic growth. This created a strong demand for local services. It also meant that local financing needs far outstripped the growth in property tax revenues. These trends are summarized in the following tables.

Economic and Social Development
in Ontario: 1968-73

Table 1

	1968	1970	1972	Est. 1973	% Growth 1973/1968
Gross Provincial Product (\$ billion)	29.2	35.0	41.9	48.1	65
Population (000)	7,306	7,554	7,825	7,938	9
Households (000)	2,173	2,400	2,671	2,761	23
Students (000)	1,979	2,022	2,081	2,069	5
Construction Investment (\$ billion)	3.5	4.1	5.3	5.6	60
Real Property Assessment (\$ billion)	49.5	64.6	69.5	73.4	48
Housing Units					
Single Family (000)	34.2	26.2	46.2	50.7	48
All Residential (000)	80.3	76.7	102.9	110.5	38
Personal Income (\$ billion)	17.6	21.7	27.1	29.6	68
Average Income per Household (\$)	8,145	9,041	10,612	11,082	36

During the five-year period, total local expenditures increased from \$2.9 billion to \$4.5 billion. Ontario transfers to local government were the major source of financing this growth in local spending. At the same time, the property tax burden was stabilized and the equity of the tax itself was significantly improved.³ These trends are analyzed in Section III of this paper.

Financing Overview: 1968-73
(\$ million)

Table 2

	1968	1970	1972	1973	% Growth 1973/1968
Spending	2,901	3,505	4,185	4,469	54
Own-account Revenues	1,972	2,229	2,519	2,594	32
Ontario Transfers	929	1,276	1,666	1,875	102

Structural Reforms

Beginning with the establishment of the Regional Municipality of Ottawa-Carleton in 1969, a number of comprehensive measures were implemented to improve the structure and organization of local govern-

³Hon. W. Darcy McKeough, *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

ment. These involved consolidation of jurisdictions, boundary changes and transfers of responsibility:

- School boards were consolidated into 182 units from about 1400 separate jurisdictions.
- Regional and district municipalities were established in 11 areas: Niagara, Ottawa-Carleton, Waterloo, York, Halton, Hamilton-Wentworth, Peel, Durham, Sudbury, Muskoka, and Haldimand-Norfolk.

Including Metropolitan Toronto, almost two-thirds of Ontario residents live within the jurisdiction of restructured municipal governments. The establishment of these new units has created a framework within which municipalities can:

- plan for more orderly development;
- provide services more effectively in rapidly growing areas;
- establish priorities for financing; and
- create more equitable means of cost sharing among residents.

Increased Financial Support

Ontario has introduced new financial support measures and enriched existing programs in each successive year since 1969. These programs have involved large increases in payments to local government and direct reform measures for residential and farm taxpayers. These new measures are summarized below:

Payments to Local Government

- Higher Level of Education Support
- Property Tax Stabilization Plan
- Enriched Grants
- Unconditionalizing Provincial Grants
- Broadening the Local Tax Base

Payments to Taxpayers

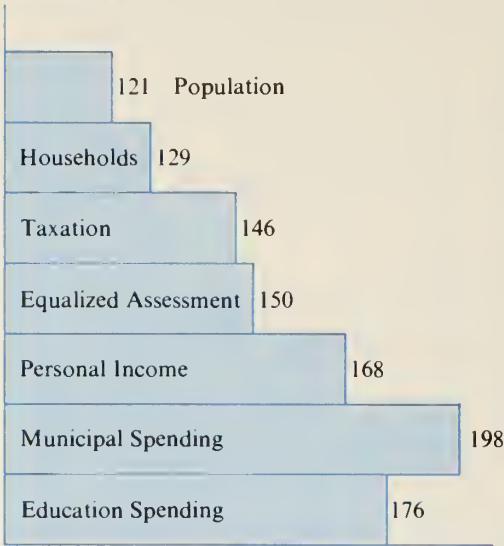
- Property Tax Credits
- Pensioner Tax Credits
- Farm Tax Rebates

The analysis in Section III of this paper documents the impact of these financial reforms initiated by the Ontario Government. It shows that these measures were by far the major factor in the ability of the local sector to finance urban development and contain property tax burdens.

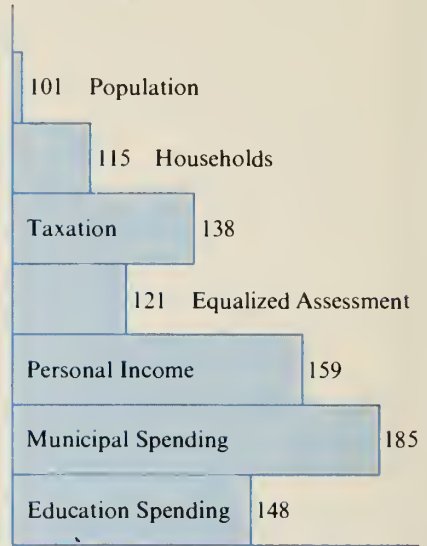
Patterns of Expenditures Related to Growth for
Selected Municipal Categories: Index 1973/1968
(1968 = 100)

Chart 1

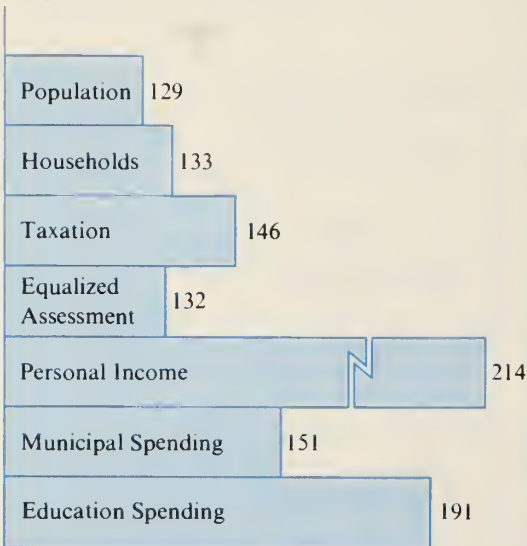
Rapid Urban



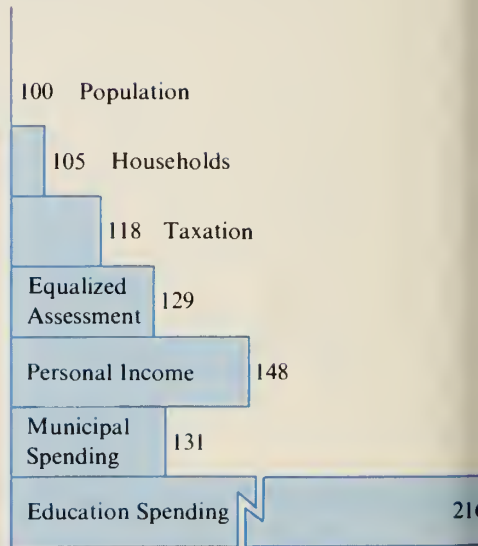
Stable Urban



Urbanizing



Rural



Differential Growth Patterns

A better appreciation of local government finance includes recognition of the differences among local growth rates, demands for services and imbalances in the tax base. Accordingly this paper, in addition to documenting the performance of the total sector, uses a sample to analyze four types of local government. The categories are:⁴

1. *Rapid Urban*: Population growth rate of 9 per cent or more over the period 1968-73 (e.g. Oshawa, Barrie and North York).
2. *Stable Urban*: Population growth of less than 6 per cent over the period (e.g. Owen Sound, Sarnia and Cobourg).
3. *Urbanizing*: Semi-rural areas with a population growth in excess of 9 per cent (e.g. Orangeville and the Townships of Innisfil and Ernestown).
4. *Rural*: Population growth below 6 per cent (e.g. the Townships of Raleigh and Burford).

The accompanying chart summarizes the development patterns for each of the four categories with respect to increases in households, assessment, personal income and spending. Rapid Urban areas experienced high growth in new households, personal income and total spending and the highest rate of assessment growth. Stable Urban areas experienced lower rates of growth in new households, assessment and spending. Urbanizing areas experienced the highest growth in new households, only a modest increase in equalized assessment but a high rate of growth in education spending as would be expected. In contrast, the slower-growth Rural areas recorded the lowest growth in taxation despite a large increase in education spending.⁵

III Financing Record

This section outlines the local government financing record over the past five years. In particular it focuses on:

- the contribution of different revenue sources to local financing;
- financing trends in municipalities with different rates of growth and development; and
- expenditure trends and priorities.

The overall composition of local government financing at the beginning and end of the five-year period is documented in Table 3. Over the period, total local spending increased from a base of \$2.9

⁴See the Appendix to this paper.

⁵See forthcoming Staff Paper, *Patterns of Growth and Financing among Ontario Municipalities*.

Composition of Local Government Financing

Table 3

	— 1968 —		— 1973 —		% Growth 1973/1968
	(\$ m.)	(%)	(\$ m.)	(%)	
Provincial Transfers	929	32.1	1,875	42.0	102.0
Own-account Revenue					
Borrowing	354	12.2	396	8.9	11.9
Other Revenue	316	10.9	435	9.7	37.7
Residential Taxation ¹	764	26.3	1,040	23.2	36.1
Commercial Taxation	538	18.5	723	16.2	34.4
Total Financing	2,901	100.0	4,469	100.0	54.1

¹Before rebates to citizens from Ontario Property Tax Credit System.

billion in 1968 to almost \$4.5 billion in 1973. The financing mix changed dramatically over the period. Less reliance was placed on own-account revenues as Provincial transfers took up an increasing share of total local financing.

Another way of viewing this trend is to examine the financing composition of additional spending since 1968. By 1973, local government expenditures were about \$1.6 billion higher than in 1968. The Province financed 60 per cent of this increased spending.

How Spending Growth from 1968 to 1973 was Financed

Table 4

	(\$ million)	percent contribution
Provincial Transfers	946	60.3
Own-account Revenue		
Residential Taxation	276	17.6
Commercial Taxation	185	11.8
Other Revenue	119	7.6
Borrowing	42	2.7
Total	1,568	100.0

Borrowing

Local government did not have to utilize its full borrowing potential over this period. In 1973, total local borrowing of slightly less than \$400 million had not increased markedly from the 1968 level. All four categories of municipalities relied less on debt financing in 1973 than they did in 1968. By 1973, rural municipalities relied on debt financing for only one per cent of their expenditures.

Local Reliance on Debt Financing: 1968-73
(percent of total financing)

Table 5

	1968	1973
All	12.2	8.9
Rapid Urban	10.4	6.8
Stable Urban	11.6	7.3
Urbanizing	14.8	11.3
Rural	11.0	1.0

Property Taxes

Reliance on property taxes as a source of financing decreased in all types of municipalities. In 1968, local government raised about 26 per cent of its revenue from residential property taxes. In 1973, the average dependence on residential taxation declined to 23 per cent of total revenue.

Local Reliance on Property Taxes: 1968-73
(percent of total financing)

Table 6

	1968		1973	
	Residential	Commercial	Residential	Commercial
All	26.3	18.5	23.2	16.1
Rapid Urban	33.5	19.2	29.7	17.2
Stable Urban	24.9	17.0	21.0	15.3
Urbanizing	27.1	8.1	21.6	6.6
Rural	34.2	6.1	26.2	5.2

The relationship between property tax levels and household income provides a measure of the ability of householders to pay property taxes over time. Table 7 shows that gross property tax levels as a per cent of household income declined over the period 1968-73 in each of the four categories of municipalities.

Incidence of Gross
Residential and Gross Farm Taxation

Table 7

			Percent of Household Income	
			1968	1973
	1968	1973		
	(\$ million)		%	%
Rapid Urban	482	547	4.2	3.7
Stable Urban	357	417	3.1	2.7
Urbanizing	254	275	5.0	3.4
Rural	355	377	6.3	5.3

Real property tax levels were further reduced by the impact of Ontario's tax credit programs. From 1968 to 1971, Ontario delivered substantial tax benefits to citizens through the Basic Shelter Grant.⁶ In 1972 the Province introduced the Property Tax Credit which delivers largest benefits to those taxpayers in greatest need. In addition, Ontario has introduced other supplementary tax credit programs for farmers and pensioners.⁷ As a result of these programs, and increased Provincial transfers, net property tax burdens are now lower, on an absolute basis, than they were five years ago. The net property tax levels on a per household basis are outlined in Table 8.

Impact of Ontario
Tax Credits Per Household

Table 8

	1968	1973
Gross Residential Property Tax	\$352	\$377
Average Property Tax Credit	\$ 50	\$ 79
Net Property Tax Level	\$302	\$298
Net Property Tax as a Percent of Household Income	3.7%	2.8%

Ontario Payments to Local Government

The growth of Ontario transfer payments has enabled local government to accommodate successfully strong growth pressures, and, at the same time, reduce the property tax burden in Ontario. The Province's support for local government and its agencies (such as Homes for the Aged) has grown from a level of \$1 billion in 1968 to over \$2 billion in 1973.⁸ The largest increase was an additional \$600 million for education bringing the Province's level of support up to an average of 60 per cent of school board spending. In percentage terms, the largest-growing area of support is unconditional payments which increased from \$40 million in 1968 to over \$200 million in 1973, a five-fold increase. In all, Ontario's support for local government and its agencies, as a per cent of total local revenue, has increased steadily each year, reaching 47 per cent in 1973.

Increased Provincial support was distributed widely among local governments, with all categories of municipalities benefiting from higher payments. The strong equalizing role of Provincial transfers

⁶For a full explanation of Ontario's measures to reduce property tax regressivity, see Hon. W. Darcy McKeough, "Ontario's Property Tax Credit Plan", *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

⁷Hon. John White, *Ontario Budget 1973* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973); and, "Income Security and Tax Reform in Ontario", *Ontario Budget 1974*.

⁸See Table C5, "Ontario Finances", *Ontario Budget 1974*.

Distribution of Ontario Grants by
Type of Local Government
(percent of total financing)

Table 9

	1968	1973
Rapid Urban	27.1	35.4
Stable Urban	27.1	41.0
Urbanizing	40.3	53.1
Rural	43.4	62.4

is apparent in the urbanizing and rural municipalities. By 1973, they received more than 50 per cent of their financing from the Province.

Changing Expenditure Priorities

During the past five years the pattern of local spending has changed significantly. Not only have municipalities accommodated high rates of development, but they also have responded to changing social needs and priorities. With the stabilization in student enrolments, the major expenditure shift has been away from the area of education to municipal fund spending. Table 10 shows that education, which accounted for 54 per cent of total local requirements in 1968, had declined to 49 per cent by 1973.

Composition of Local Government
Expenditures
(percent of total)

Table 10

	1968	1973
Municipal	45.6	50.9
Education	54.4	49.1

Within the municipal sector itself spending priorities shifted significantly. There was increasing emphasis on police and fire protection.

Composition of Municipal
Operating Expenditures
(percent of total)

Table 11

	1968	1973
General Government	9.6	8.3
Protection	18.8	20.9
Public Works	30.6	25.3
Sanitation	10.6	9.4
Social and Family Services	9.4	13.3
Recreation	9.0	10.4
Financial and Other	12.0	12.4
	100.0	100.0

community services and recreation. Allocations to general government and roads and public works, on the other hand, were de-emphasized.⁹

Conclusion

The past five years have been a period of rapid urban growth and rising aspirations within Ontario. Local government has responded effectively to this dynamic era of economic growth and social change. The quality of life in urban and rural Ontario has advanced during this period to a standard unsurpassed anywhere.

Progress to this level demanded a massive increase in the quantity and quality of local services. Local revenue sources simply were not adequate to meet this financial challenge without sizeable mill rate increases. In response, the Province introduced stage one of its reform program to meet the financial need. Its program for revenue sharing with local government and property tax reform made up the bulk of the revenue shortfall, improved the fairness of the property tax base and reduced the net property tax level in Ontario. One issue dominates the outlook for the future. Under continuing growth pressure and the need to improve the quality of urban life, present revenue sources simply are inadequate to meet the needs of local government. In recognition of this financing need the Ontario Government made a long-term commitment to local government at the National Tri-Level Conference in November 1973.¹⁰ This revenue sharing commitment embraced three dimensions of increased financial support:

- a guarantee to increase transfers to local government at the rate of growth in the Province's total revenues;
- a pledge to pass on to local government 100 per cent of the revenues from any increased unconditional tax sharing with the federal government; and
- measures to strengthen municipal borrowing capacity.

IV Financing Future Growth

The Ontario Government has done much over the last five years to rationalize the structure and strengthen the financing of local government. But in a dynamic province such as Ontario, local government will continue to face strong growth pressures in the years ahead. This section projects local government finances for the next three years and discusses their implications for future budgets at the local, provincial and federal levels.

⁹See forthcoming Staff Paper, *Evaluating Local Government Service Levels in Ontario*.

¹⁰Ontario's commitment was set out in a statement by Hon. John White, *Public Finance* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973).

Fiscal Projections to 1976

The following fiscal projections in Table 12 are simply forecasts of the consequences of continuing *current* spending programs and maintaining 1973 mill rates. Municipal spending has been projected at 12.5 per cent per year and school board spending at 8.5 per cent. This projected spending stream may be somewhat conservative if inflation continues at current rates. On the revenue side, property taxes have been extrapolated at just over 4 per cent reflecting the historic rate of increase in the assessment base; special charges have been escalated at 10 per cent in recognition of the higher growth rate of this revenue source in recent years. The projected stream of local government borrowing takes into account the estimated growth in capital spending plus a gradual substitution of debt financing in place of revenue financing

Fiscal Outlook for Local
Government in Ontario
(\$ million)

Table 12

	Estimated		Projected	
	1973	1974	1975	1976
Expenditures:				
Municipalities	2,276	2,552	2,895	3,240
School Boards	2,193	2,391	2,583	2,795
Total	4,469	4,943	5,478	6,035
Revenues:				
Own-account				
• Property Tax	1,714	1,784	1,857	1,933
• Special Charges	49	54	60	66
• Payments-in-lieu	35	36	38	39
• Other Revenues	400	419	441	464
	2,198	2,293	2,396	2,502
Provincial Transfers	1,875	2,152	2,364	2,623
Total	4,073	4,445	4,760	5,125
Borrowing	396	440	490	540
Residual Deficit	—	58	228	370

Note: Figures include only the net contribution by municipalities to local agencies.

Projected Distribution of the Ontario Commitment

Ontario Commitment	2,046	2,288	2,528	2,793
Less Transfers to Local Agencies and other financial adjustments	171	136	164	170
Equals Transfers to Local Governments	1,875	2,152	2,364	2,623

for capital projects. The large increases in Provincial transfers are the result of the Ontario commitment and are based on the assumption that Provincial revenues grow at 10.5 per cent annually over the long run.

These projections confirm again the serious financing problem of local government.¹¹ While expenditures can be expected to grow by at least 10 per cent per year, local government's *own-account* tax sources will likely yield less than 5 per cent more revenues annually.

The Province of Ontario's commitment provides a basic financial underpinning against these needs. As a result the local government sector in Ontario can now count on a guaranteed revenue yield growing at 7.5 per cent per year.

Implications of the Projections

The Province has already committed the maximum financial support within its means over the long run. This means that the remaining financial gap must be cleared by action at the local level or at the federal level. *Only two realistic options are available:*

- mill rate increases every year; or
- a new era in federal tax sharing.

Elimination of the projected deficit stream through use of the property tax would imply an increase in mill rates of 3 per cent in 1974, a further 9 per cent in 1975 and another 6 per cent in 1976. For a homeowner currently paying \$500 in property tax, these mill rate increases would add almost \$100 to his tax bill over the next three years. Moreover, this would represent only a second-best and temporary solution to the long-standing financial problem facing local government. Because the property tax has two inherent drawbacks as a revenue-raising device—low growth potential and regressive characteristics—local government should not be forced to rely on greatly increased use of this traditional revenue source. This course of action would be clearly retrogressive. It would definitely offset the steps that have been taken in the past to stabilize property tax burdens and distribute them on a more equitable basis. A fairer and more realistic remedy is one which will provide local government with access to new, faster-growing revenue sources.

A Tax Sharing Plan for Local Government

The guarantee of the Ontario Government that its financial transfers to local government will grow at the rate of its own revenues has established the foundation for a comprehensive revenue sharing plan. What

¹¹This fiscal imbalance was clearly documented by the Tax Structure Committee in 1966 and confirmed again in 1970. See, Hon. W. Darcy McKeough, *Ontario Budget 1971* (Toronto: Department of Treasury and Economics, 1971) p. 8.

is needed to complete the plan is for the federal government to play its part in correcting the fiscal imbalance of local government. To meet the problem of a growing financial gap, local governments require access to a fast-growing revenue stream such as the personal income tax. Accordingly, the Ontario Government suggests the following plan of income tax sharing, the entire benefits of which would be passed on to local government.

Ontario's Plan				
Additional Tax Sharing Federal Govt. to all Provinces		Ontario Revenue Sharing with Local Governments		
Personal Income Tax Points		Revenue Yield (\$ million)		
		1974	1975	1976
1974	1.5	80	94	111
1975	+ 2.0	—	125	148
1976	+ 1.5	—	—	111
	5.0	80	219	370

The plan calls for a gradual transfer of 5 per cent of federal income tax capacity to the provinces and the flow through of these revenues from Ontario to local governments. In terms of federal finances, the costs would be modest. By 1976, Ottawa would relinquish some \$800 million to all provinces, out of a tax source which, in that year alone, will grow by \$2 billion. In terms of municipal finances, however, the benefits would be large. Such a plan would clear the projected deficits of local governments in Ontario over the next three years. But it would also constitute a major long-run reform by restoring to local governments a permanently sound financial base.

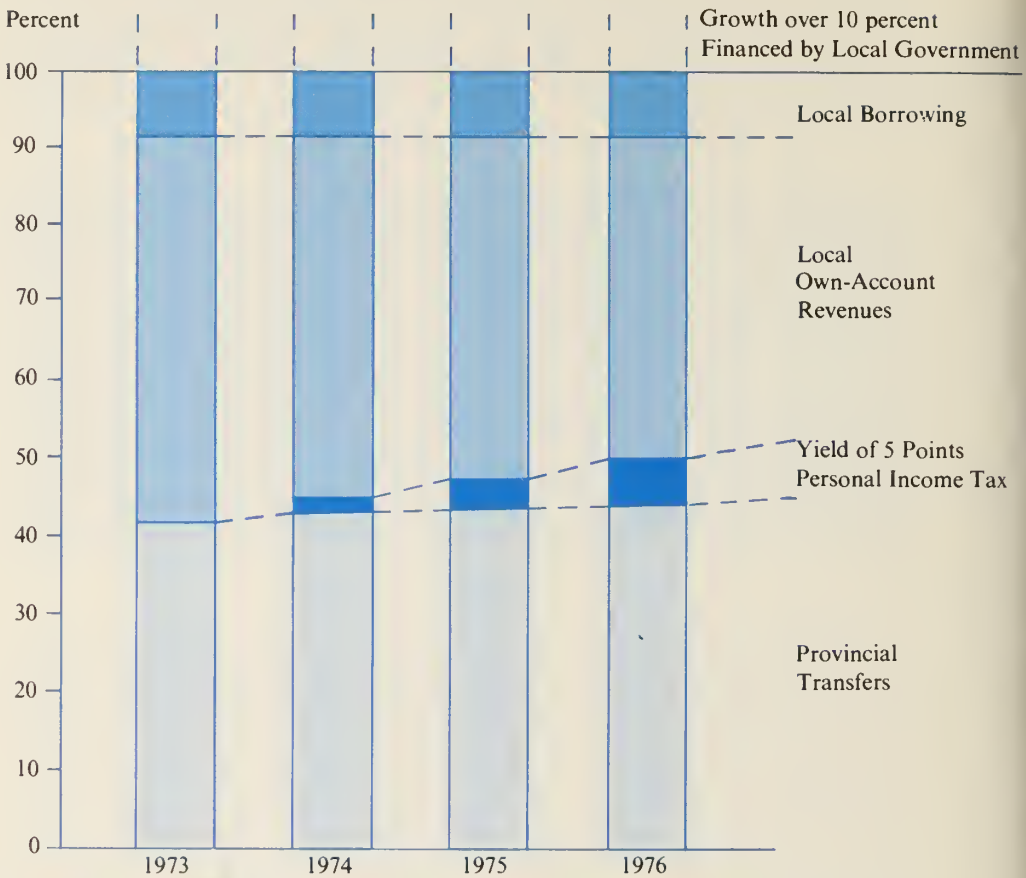
Adoption of this plan would mean that local governments would enjoy a gradually improving revenue mix over time. In 1976, for example, the composite growth rate of their three revenue sources – property tax, provincial transfers and the yield of five income tax points – would exceed 8 per cent per year. (See Chart 2.) By 1980, this new financing base would generate automatic revenue increases of 8.7 per cent per year. This would still leave a residual financing burden directly on local governments after 1976. But it would be a fair and manageable share of the burden, not an excessive share.

Method of Flowing Through New Revenues

Positive action on this plan by the federal government will raise the issue of how these new revenues would be distributed among 800 local governments. There are a number of possibilities. At one extreme, the new revenues could be passed through in the form of across-the-board enrichments to the existing unconditional grants. This would

Distribution of Financing Burden
for Local Government Spending

Chart 2



build into the distribution pattern a sizeable equalization component. At the other extreme, the new revenues could be earmarked and distributed on the basis of the amount of income tax actually collected within each municipal jurisdiction. This would eliminate any redistributive element and, therefore, represent a clean pass-through. The Ontario Government has no particular preference for either option or indeed, for any other potential formula, so long as the revenues are distributed in some form of unconditional transfers.¹² Rather, it will seek the views and ideas of the local governments themselves in order to determine the best method to implement this basic reform.

Conclusion

A federal system must be flexible and adapt to the social and economic changes that take place over time. In the early 1960's, growth pressures

¹²While Ontario is here committing itself to a 100 per cent pass-through, other provinces may choose to allocate their tax points differently.

were felt at the provincial level, and the Canadian federal system responded with expanded tax sharing, cost sharing and equalization. In the 1970's, growth pressures are concentrating at the local level, demanding a new round of intergovernmental fiscal reform.

During the period of the last six years, the Ontario Government implemented a reform program aimed at strengthening local government, both in terms of structure and of financing. At the same time it has acted to constrain property tax increases on Ontario citizens. Section III of this paper has demonstrated that these reform measures have been very successful. Local government has emerged from six years of rapid growth and urbanization in a stronger financial position than ever before. Looking to the future, it is evident, however, that local government will continue to face the twin challenges of managing growth and financing essential public services. Part IV of this paper has set out a comprehensive plan for dealing with this problem of inadequate local finances.

The fiscal reform plan advanced by Ontario requires positive action by each level of government. The Province has already undertaken to do its part by guaranteeing a long-term revenue stream to local government and by pledging to pass on the full revenue benefits of any new tax sharing with Ottawa. The federal government's contribution would simply amount to a gradual transfer of five income tax points out of its surplus revenue-generating capacity. Access to these fast-growing revenues would place local governments in Ontario on a permanently sound financial base, and leave them the full responsibility for financing spending growth in excess of 10 per cent per year. Under such a fundamental reform plan the prospect of substantial mill rate increases would be removed.

Appendix A

Local Government Expenditures and Revenues

Table A1

(\$ million)

	1968	Percent	1973 ¹	Percent	Index 73/68 1968 = 100
Expenditures—Revenue Fund					
Municipal					
General Government	95.2	9.6	143.7	8.3	151
Protection	185.5	18.8	362.9	20.9	196
Public Works	302.7	30.6	440.9	25.3	146
Sanitation	104.4	10.6	163.4	9.4	157
Social and Family	93.4	9.4	231.6	13.3	248
Recreation and Community	88.9	9.0	180.6	10.4	203
Financial and Other	119.2	12.0	216.0	12.4	181
Subtotal	989.3	100.0	1,739.1	100.0	176
Education	1,301.6		2,078.0		160
Total	2,290.9		3,817.1		167
Expenditures—Capital Fund					
Municipal	390.2	54.0	638.4	76.9	164
Education	332.7	46.0	192.1	23.1	58
Total	722.9	100.0	830.5	100.0	115
Total Expenditures²	2,901.4		4,468.6		154

(Continued)

¹All 1973 values are estimated.²Total Expenditure = Revenue Fund + Capital Fund Expenditures less Capital Fund Expenditures financed out of Revenue Fund Revenues.

Local Government Expenditures and Revenues

Table A1

(\$ million)

(Continued)

	1968	Percent	1973	Percent	Index 73/68 1968 = 100
Revenues—Revenue Fund					
Municipal					
Property Taxation ³	641.2	64.8	951.0	54.7	148
Provincial Transfers ⁴	219.8	22.2	534.5	30.7	243
Other Revenue	128.3	13.0	253.6	14.6	200
Total	989.3	100.0	1,739.1	100.0	176
Education					
Property Taxation	660.7	50.8	812.4	39.1	123
Provincial Transfers	571.1	43.8	1,219.4	58.7	214
Other Revenue	69.8	5.4	46.2	2.2	66
Total	1,301.6	100.0	2,078.0	100.0	160
Total	2,290.9		3,817.1		167
Revenues—Capital Fund					
Municipal					
Long Term Liabilities	165.1	42.3	299.0	46.8	181
Provincial Transfers	72.2	18.5	118.0	18.5	163
Revenue Fund	56.8	14.6	102.0	16.0	180
Reserves, Reserve Funds, Canada					
Transfers and Other	96.1	24.6	119.4	18.7	124
Total	390.2	100.0	638.4	100.0	164
Education					
Long Term Liabilities	192.3	57.8	96.6	50.3	50
Provincial Transfers	65.1	19.6	2.5	1.3	4
Revenue Fund	55.6	16.7	77.0	40.1	138
Reserves, Reserve Funds, Canada					
Transfers and Other	19.7	5.9	16.0	8.3	81
Total	332.7	100.0	192.1	100.0	58
Total	722.9		830.5		115
Total Revenues	2,901.4		4,468.6		154

³Property taxation includes special charges (i.e. special area levies).⁴Provincial transfers do not include Ontario payments-in-lieu of local property taxation.

Selected Municipalities by Municipal Category

Table A2

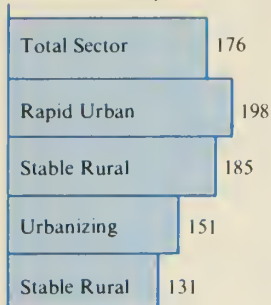
Area Municipality	County/Region	Area Municipality % Population Change 1968-1973 ¹
I Rapid Urban		
1. City of Oshawa		13.6
2. Township of Nepean	Region of Ottawa-Carleton (1969-73)	28.6
3. Borough of North York	Metropolitan Toronto	25.6
4. City of Niagara Falls	Region of Niagara	15.1
5. Town of Oakville	County of Halton	18.6
6. City of Waterloo	Region of Waterloo (1973)	28.6
7. City of Belleville		10.1
8. City of Barrie		12.5
9. City of St. Thomas		10.6
10. City of Orillia	County of Simcoe (1968)	9.4
II Stable Urban		
1. City of Kingston		5.6
2. City of Cornwall		(1.0)
3. City of Woodstock		0.9
4. City of Ottawa	Region of Ottawa-Carleton (1969-73)	0.3
5. City of Sarnia		(2.2)
6. City of Brockville		(0.8)
7. City of Owen Sound		(1.4)
8. City of Pembroke	County of Renfrew (1968-70)	(0.5)
9. Town of Cobourg	County of Northumberland and Durham	1.7
III Urbanizing		
1. Town of Orangeville	County of Dufferin	36.6
2. Township of Sidney	County of Hastings	24.2
3. Township of Innisfil	County of Simcoe	35.6
4. Township of Ernestown	County of Lennox and Addington	33.1
5. Township of Clarke	County of Northumberland and Durham	27.6
6. Township of Smith	County of Peterborough	23.8
7. Township of Gosfield South	County of Essex	20.9
8. Township of Essa	County of Simcoe	19.5
9. Township of Osgoode	Region of Ottawa-Carleton (1969-73)	24.7
10. Township of Maidstone	County of Essex	16.6
IV Rural		
1. Township of Darlington	County of Northumberland and Durham	(1.9)
2. Township of Raleigh	County of Kent	0.9
3. Township of Windham	County of Norfolk	(8.5)
4. Township of Brantford	County of Brant	(1.4)
5. Township of Murray	County of Northumberland and Durham	5.9
6. Township of Burford	County of Brant	(2.6)
7. Township of Charlotteville	County of Norfolk	(5.2)
8. Township of Dereham	County of Oxford	(6.0)
9. Township of Mersea	County of Essex	4.8
10. Township of Harwich	County of Kent	3.9

¹All 1973 values are estimated.

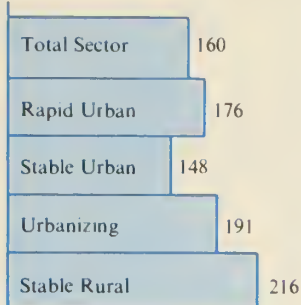
Comparative Expenditure Patterns by Selected Municipal Categories Index 1973/1968, 1968 = 100

Chart A1

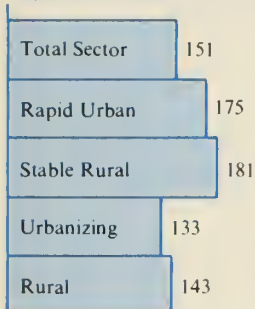
(i) Total Municipal



(ii) Education



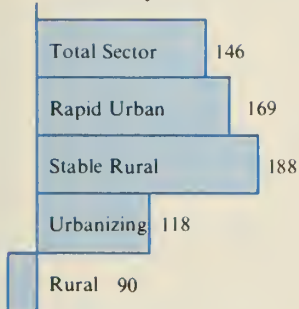
(iii) General Government



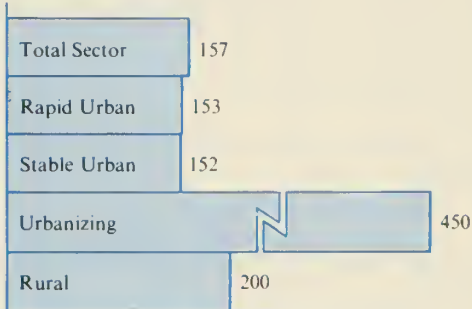
(iv) Protection



(v) Roadways



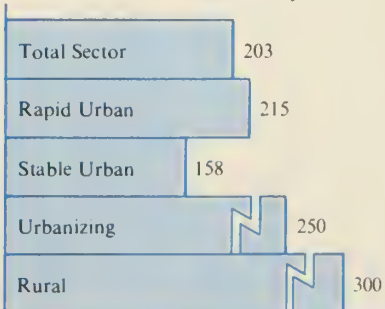
(vi) Sanitation



(vii) Social and Family Services



(viii) Recreation and Community Services



Expenditure Performance by Function for Selected Municipal Categories

Table A3

(\$ million)	Urbanizing				Rural			
	1968	%	1973	Index 1973/1968 1968 = 100	%	1973	%	Index 1973/1968 1968 = 100
Growth Characteristics								
Population (,000)	65		84	129		69		100
Households (,000)	24		32	133		21		105
Personal Income per Household (\$)	5,042		8,109	161		6,718		141
Equalized Assessment								
Residential & Farm (\$ million)	391		512	115		556		129
Commercial & Business (\$ million)	109		147	135		87		124
Revenue Fund Expenditure								
Municipal								
General Government	0.9	11.4	1.2	133	9.1	1.0	9.9	143
Protection	0.5	6.4	1.4	280	5.2	0.5	5.0	125
Roadways	3.9	50.0	4.6	118	63.6	4.4	43.6	90
Sanitation	0.2	2.6	0.9	450	1.3	0.2	2.0	200
Social and Family Services	0.7	9.0	1.4	200	6.5	1.9	18.8	380
Recreation and Comm. Services	0.2	2.6	0.5	250	1.3	0.3	3.0	300
Financial and Other ¹	1.4	18.0	1.8	129	13.0	1.8	17.7	180
Subtotal	7.8	100.0	11.8	151	100.0	10.1	100.0	131
Education	11.3		21.6	191		25.9		216
Total Revenue Fund Expenditure	19.1		33.4	175		36.0		183
Capital Fund Expenditure								
Municipal								
Transfers to Municipal Enterprises	2.1	41.5	7.6	362	52.1	4.9	87.5	196
Total Municipal Capital Fund Expenditure	2.9	58.5	0.2	69	47.9	0.7	12.5	30
Total Municipal Capital Fund Expenditure	5.0	100.0	7.8	158	100.0	5.6	100.0	117
Total Expenditure ²	23.6		40.7	172		40.3		178

¹Other includes Other Public Works, Health, Planning and Development, Financial and Other.²Capital Expenditure from Revenue Fund has been eliminated to avoid double counting.

Expenditure Performance by Function for Selected Municipal Categories

Table A3
(Continued)

	Rapid Urban				Stable Urban			
	1968	%	1973	Index 1973/1968 1968 = 100	1968	%	1973	Index 1973/1968 1968 = 100
Growth Characteristics								
Population (,000)	802		973	121	537		540	101
Households (,000)	229		295	129	160		184	115
Personal Income per Household (\$)	11,422		14,891	130	11,358		15,708	138
Equalized Assessment								
Residential and Farm (\$ million)	4,196		6,276	150	2,167		2,706	125
Commercial and Business (\$ million)	2,297		3,478	151	1,458		1,689	116
Revenue Fund Expenditure								
Municipal								
General Government	8.5	7.2	14.9	6.4	7.3	8.6	13.2	8.4
Protection	24.3	20.6	52.6	22.5	18.1	21.4	36.6	23.4
Roadways	21.4	18.2	36.2	15.5	13.9	16.5	26.0	16.7
Sanitation	14.9	12.7	23.7	10.1	9.4	11.2	14.3	9.2
Social and Family Services	10.6	9.0	29.4	12.6	11.4	13.5	22.5	14.4
Recreation and Comm. Services	12.6	10.7	27.0	11.5	8.9	10.5	14.0	9.0
Financial and Other ¹	25.5	21.6	49.7	21.4	15.3	18.3	29.5	18.9
Subtotal	117.8	100.0	233.5	100.0	84.3	100.0	156.1	100.0
Education	153.3		269.0	176	108.2		160.9	148
Total Revenue Fund Expenditure	271.1		502.5	185	192.5		317.0	165
Capital Fund Expenditure								
Municipal	53.9	84.0	77.8	82.9	25.9	61.5	41.4	77.5
Transfers to Municipal Enterprises	10.2	16.0	16.0	17.1	16.3	38.5	12.0	22.5
Total Municipal Capital Fund Expenditure	64.1	100.0	93.8	100.0	42.2	100.0	53.4	100.0
Total Expenditure ²	327.3		580.0	177	231.2		366.4	158

¹Other includes Other Public Works, Health, Planning and Development, Financial and Other.

²Capital Expenditure from Revenue Fund has been eliminated to avoid double counting.

Revenue by Source by Selected Municipal Categories

Table A4

(\$ million)

	Rapid Urban			Stable Urban			Index 1973/1968 1968 = 100
	1968	%	1973	1968	%	1973	
Revenue Fund Revenues							
Municipal							
Property Taxation	85.9	72.9	143.2	47.6	56.5	80.0	168
Provincial Transfers							
—Basic Support	14.6	12.4	51.0	12.0	14.2	31.2	259
—Equalization	1.7	1.4	6.5	0.5	0.6	4.8	960
Subtotal	16.3	13.8	57.5	12.5	14.8	36.0	275
Other Revenue	15.6	13.3	32.8	24.2	28.7	40.1	167
Total	117.8	100.0	233.5	84.3	100.0	156.1	185
Education							
Property Taxation	86.8	56.7	128.8	49.2	45.4	52.8	107
Provincial Transfers							
—Basic Support	43.7	28.5	97.4	28.8	26.6	72.0	250
—Equalization	15.0	9.8	31.1	13.3	12.3	26.5	199
Subtotal	58.7	38.3	128.5	42.1	38.9	98.5	234
Other Revenue	7.7	5.0	11.7	16.9	15.7	9.6	57
Total	153.3	100.0	269.0	108.2	100.0	160.9	148
Total Revenue Fund Revenues	271.1		502.5	192.5		317.0	165

Capital Fund Revenues										
Municipal										
Long Term Liabilities	34.0	53.1	39.7	42.3	117	26.9	63.7	26.7	50.0	99
Contributions from Other Governments	13.8	21.5	19.0	20.2	138	8.1	19.2	15.8	29.5	195
Contributions from Revenue Fund	7.9	12.4	16.3	17.4	206	3.5	8.3	4.0	7.6	115
Contributions from Res./Res. Fund	5.9	9.1	13.0	13.9	220	3.0	7.0	5.8	10.9	193
Other	2.5	3.9	5.8	6.2	232	0.7	1.8	1.1	2.0	157
Total Capital Fund Revenues	64.1	100.0	93.8	100.0	146	42.2	100.0	53.4	100.0	127
Total Revenues ¹	327.3		580.0		177	231.2		366.4		158
Tax Levy by Category										
Gross Res. and Farm Property Tax	110.3	70.9	161.3	61.4	146	57.1	67.2	76.8	60.5	135
Property Tax Relief	(17.2)	(11.1)	(9.3)	3.5	54	(11.8)	(13.9)	(5.9)	(4.6)	50
Net Res. and Farm Property Tax	93.1	59.8	152.0	57.9	163	45.3	53.3	70.9	55.9	157
Comm. Ind/Bus. Property Tax	63.5	40.8	92.6	35.2	146	38.9	45.8	56.0	44.1	144
Adjustments	(1.1)	(0.6)	18.1	6.9		0.8	0.9	0.0		
Net Total Property Taxation	155.5	100.0	262.7	100.0	169	85.0	100.0	126.9	100.0	149
Gross Res. Property Tax per Household	\$482		\$547		114	\$357		\$417		117
Property Tax Relief per Household	75		32		43	75		32		43
Net Res. Property Tax per Household	407		515		127	282		385		137
Residential Property Tax per Household as % of Personal Income per Household	3.7		3.5		95	2.5		2.5		100

¹Capital Expenditure from Revenue Fund has been eliminated to avoid double counting.

Revenue by Source by Selected Municipal Categories
(\$ million)

		Urbanizing				Rural				Index 1973/1968 1968 = 100		Index 1973/1968 1968 = 100	
		1968	%	1973	%	1968	%	1973	%	1968	%	1968	%
Revenue Fund Revenues													
Municipal													
Property Taxation		3.7	47.4	5.2	44.1	4.8	61.5	4.2	41.6	4.8	61.5	4.2	41.6
Provincial Transfers													
—Basic Support		1.6	20.5	3.0	25.4	1.6	20.5	3.4	33.7	1.6	20.5	3.4	33.7
—Equalization		1.1	14.1	1.2	10.2	1.7	21.8	2.1	20.8	1.7	21.8	2.1	20.8
Subtotal		2.7	34.6	4.2	35.6	3.3	42.3	5.5	54.5	3.3	42.3	5.5	54.5
Other Revenue		1.4	18.0	2.4	20.3	(0.3)	(3.8)	0.4	3.9	(0.3)	(3.8)	0.4	3.9
Total		7.8	100.0	11.8	100.0	7.8	100.0	10.1	100.0	7.8	100.0	10.1	100.0
Education													
Property Taxation		4.6	37.2	6.3	29.2	4.4	36.7	8.4	32.4	4.4	36.7	8.4	32.4
Provincial Transfers													
—Basic Support		3.4	30.1	8.7	40.0	3.4	28.3	9.8	37.8	3.4	28.3	9.8	37.8
—Equalization		2.6	23.0	6.3	29.1	2.8	23.3	6.8	26.3	2.8	23.3	6.8	26.3
Subtotal		6.0	53.1	15.0	69.1	6.2	51.6	16.6	64.1	6.2	51.6	16.6	64.1
Other Revenue		0.7	9.7	0.3	1.7	1.4	11.7	0.9	3.5	1.4	11.7	0.9	3.5
Total		11.3	100.0	21.6	100.0	12.0	100.0	25.9	100.0	12.0	100.0	25.9	100.0
Total Revenue Fund Revenues		19.1		33.4		19.8		36.0		19.8		36.0	

Capital Fund Revenues**Municipal**

Long Term Liabilities	3.5	70.0	4.6	59.0	131	2.5	49.0	0.4	7.4	16
Contributions from Other Governments	0.8	16.0	2.4	30.8	300	0.4	7.8	2.7	46.3	625
Contributions from Revenue Fund	0.5	10.0	0.5	6.4	100	1.7	37.3	1.3	24.1	68
Contributions from Res./Res. Fund	0.2	4.0	0.2	2.6	100	0.1	2.0	0.1	1.9	100
Other	0.0	0.0	0.1	1.2		0.2	3.9	1.1	20.2	550
Total Capital Fund Revenues	5.0	100.0	7.8	100.0	156	4.9	100.0	5.6	100.0	106
Total Revenues ¹	23.6		40.7		172	22.8		40.1		174

Tax Levy by Category

Gross Res. and Farm Property Tax	6.1	85.9	8.8	79.3	144	7.1	87.7	8.3	68.0	117
Property Tax Relief	(1.2)	(16.9)	(0.4)	(3.6)	33	(1.1)	(13.6)	(0.4)	(3.3)	36
Net Res. and Farm Property Tax	4.9	69.0	8.4	75.7	171	6.0	74.1	7.9	64.7	132
Comm/Ind/Bus/Property Tax	1.8	25.4	2.7	24.3	151	1.2	14.8	1.5	12.3	125
Adjustments	0.4	5.6	0.0			0.9	11.1	2.8	23.0	311
Net Total Property Taxation	7.1	100.0	11.1	100.0	156	8.1	100.0	12.2	100.0	151
Gross Res. Property Tax per Household	\$254		\$275		108	\$355		\$377		106
Property Tax Relief per Household	50		12		24	55		18		33
Net Res. Property Tax per Household	204		263		129	300		359		120
Residential Property Tax per Household as % of Personal Income per Household	4.2		3.3		79	6.3		5.3		84

¹Capital Expenditure from Revenue Fund has been eliminated to avoid double counting.

Budget Paper C

Ontario Finances

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Ontario Finances

Introduction

In previous years, Budget Paper C has consisted of Financial Statements and short explanatory texts outlining a series of improvements in the structure and presentation of the statements. For example, last year's paper outlined the new accounting framework presenting the budgetary accounts on a gross basis. This year, however, the paper provides an economic perspective to the Government's financial operations. This is appropriate because the budget is an overall fiscal strategy consisting of:

- an expenditure plan for existing programs and new measures to meet social and economic priorities, including financial support to local government;
- a financing plan which incorporates taxation and borrowing; and
- an economic strategy geared to the objectives of stability and growth, including balanced development of the public sector.

The major dimensions of the budget relate closely to the size, composition and growth of the Canadian and Ontario economies. Accordingly, this paper reviews the performance of the Ontario economy in Canada and in relation to major industrial countries. It also examines public finance in Ontario with respect to Provincial capital investment, taxation, borrowing and expenditure. It discusses the changing structure of the budget in relation to new priorities. The last part of the paper reviews the past fiscal year and presents in detail Ontario's financial plan for 1974-75.

The Ontario Economy: Strength and Diversity

The Ontario economy is the largest in the Canadian federal system. With a population of eight million in 1973, Ontario had 36 per cent of the total population of Canada. The province's share of Gross National

Product (GNP) was proportionately larger at 41.6 per cent. Ontario also had a higher share of total Canadian employment (38.4 per cent) and higher than average productivity.

Regional Breakdown of Population, GNP,
and Employment in Canada, 1973

Table 1

(percent distribution)

	Population	GNP	Employment
ONTARIO	36.0	41.6	38.4
Quebec	27.5	24.3	26.9
Prairie Region	16.2	15.7	16.3
British Columbia	10.5	11.9	10.7
Atlantic Region	9.8	6.5	7.7
CANADA	100.0	100.0	100.0

Source: Various issues of Statistics Canada, *Estimated Population of Canada by Provinces and The Labour Force*; and Ontario Treasury estimates.

It is also interesting to examine Ontario's economic growth and performance in international terms. Over the period 1963-73, the annual rate of real growth in Gross Provincial Product (GPP), as shown in Table 2, averaged 5.9 per cent compared with 4.3 per cent in the United States and 4.7 per cent in West Germany. Table 3 shows that this rapid growth has brought Ontario to the same level as Sweden in terms of total annual output and fairly close to the Netherlands which has 13.5 million people. On a per capita basis, the province's income of \$4,869 is only slightly below that of the United States, as shown in Table 4.

Economic Growth, Labour Force, and Employment
in Ontario and Selected Countries, 1963-73

Table 2

(average annual growth rates)

	Real GNP	Labour Force	Employment
Japan	10.8	1.3	1.4
ONTARIO	5.9	3.5	3.5
France	5.7	1.0	0.9
Canada	5.5	3.2	3.2
West Germany	4.7	-0.1	-0.1
United States	4.3	2.1	2.4

Source: Federal Reserve Bank of St. Louis, *Rates of Change in Economic Data for Ten Industrial Countries*, August 1971 and December 1973; International Labour Office, *Yearbook of Labour Statistics 1973*; Statistics Canada, *The Labour Force*; and Ontario Treasury estimates.

National Income in Ontario
and Selected Countries, 1972
(billions U.S. dollars)

Table 3

Netherlands	42.2
Sweden	38.8
ONTARIO	38.1
Belgium	32.7
Denmark	18.5

Source: Based on United Nations, *Monthly Bulletin of Statistics*, May 1973; and Ontario Treasury estimates.

National Income Per Capita in Ontario
and Selected Countries, 1972
(U.S. dollars)

Table 4

United States	4,953
ONTARIO	4,869
Sweden	4,778
Canada	4,256
West Germany	3,901
Denmark	3,707
France	3,440

Source: Based on United Nations, *Monthly Bulletin of Statistics*, May 1973; and Ontario Treasury estimates.

A key factor in the strong performance of the Ontario economy is its diversity, as indicated by the spread of employment over many industries. Manufacturing and secondary services provide employment for over half of the Ontario labour force, but other industries share substantially in provincial employment, i.e., trade at 15 per cent; public administration at 6 per cent; finance and insurance at 5 per cent; and agriculture at 4 per cent. Ontario is the major manufacturing province in Canada with 40 per cent of all manufacturing establishments, 49 per cent of manufacturing employment and 52 per cent of the value of all manufacturing shipments.

Prospects for Growth

The economic outlook for 1974 is favourable. The basic problems will be those associated with a high level of growth, particularly supply shortages and rising prices.¹

There is uncertainty in international markets about future economic conditions resulting from the energy situation. Canada, however, is in a relatively favourable situation since its energy supplies are adequate to meet domestic demand. In addition, a large and diverse natural resource

¹The 1974 economic forecast for Ontario is outlined in an appendix to the Budget Statement.

base places Canada in a strong position with respect to future economic development. These factors will support the continuing progress of the Ontario economy which is already internationally competitive in many areas including steel, nuclear power, mining, automobiles, transportation, communications, agriculture, forestry and tourism. The production sectors of the economy are fully supported by sophisticated capital markets and a diversified range of financial institutions and services.

Public Sector Stability in Ontario

The size of the public sector in Ontario is smaller than in the rest of Canada. In 1967, the total public sector claimed 29.3 per cent of total output in Ontario compared with 36.6 per cent for the rest of Canada. By 1973, this gap had widened to 33.4 per cent for Ontario and 42.2 per cent for the rest of Canada. This is clearly displayed in Table 5.

Public Spending as a Percent of
Total Output: Ontario and Canada
(excluding intergovernmental transfers)

Table 5

	1967	1968	1969	1970	1971	1972	1973
<i>Ontario</i>							
Federal	12.6	12.6	12.2	12.6	12.8	13.5	13.4
Provincial	7.8	8.8	9.1	10.6	11.4	11.1	10.9
Municipal	8.9	9.1	9.1	9.5	9.7	9.4	9.1
	29.3	30.5	30.4	32.7	33.9	34.0	33.4
<i>Rest of Canada</i>							
Federal	13.7	13.8	13.9	14.3	14.3	15.5	15.2
Provincial	15.5	16.0	16.6	18.2	19.5	19.3	18.8
Municipal	7.4	7.7	7.9	8.3	8.3	8.5	8.2
	36.6	37.5	38.4	40.8	42.1	43.3	42.2

Source: Ontario Treasury estimates.

The period 1967 to 1973 covers a complete phase in the business cycle. From a position of relatively full employment in 1967-68, the economy entered a period of slow growth and high unemployment in 1969-70, before resuming a strong upward momentum in 1971-72 and approaching capacity levels of output in 1973. Table 5 shows that the government sector in Ontario has increased from 29.3 per cent of GDP in 1967 to 33.4 per cent in 1973. A large part of this increase is related to the introduction of public health insurance in late 1969. In the absence of this shift of health insurance from the private to the public sector, the provincial sector would have grown from 7.8 per cent in 1967 to less than 10 per cent in 1973.

The increase in the provincial share of GPP in 1971 was closely related to the implementation of expansionary fiscal policies by the Government of Ontario.² These policies included tax cuts, employment measures and income maintenance expenditures. Since that time, however, the provincial sector share has stabilized and the combined provincial-municipal share has remained virtually unchanged. Most of the growth in the federal sector in Ontario over the 1967-73 period, on the other hand, has occurred since 1971 with the recent substantial expansion in federal government expenditures.

Trends in Ontario's Finances

This section focuses on trends in Ontario's expenditures and finances over the past decade. These relate to

- spending on capital investment
- balance of taxation and borrowing
- expenditure restraint and flexibility

Capital Investment and Financing

All Provincial expenditures can be classified into two main categories, capital and operating. Capital expenditures result in the creation of physical assets which serve certain social and economic objectives of the Province over a period of years. The various categories of this capital investment are outlined in Table C7 of the Financial Statements at the end of this paper. For purposes of public accounting there are two main categories of capital investment, budgetary and non-budgetary. The total amount of budgetary investment is charged against the budgetary account at the time the expenditure is incurred, for example, spending on roads and public buildings. In the non-budgetary account, loans are made to various Provincial and local agencies to finance capital investment, such as loans to universities and school boards.

A comparison of net cash requirements³ with total capital investment⁴ provides a useful perspective on the interaction between the Province's management of debt financing and expenditure planning. This comparison is illustrated in Chart 1. It shows that net cash requirements peaked at \$1 billion in 1971-72 to stimulate economic activity but have since stabilized at about \$700 million. The chart also shows

²These measures are outlined in Hon. W. Darcy McKeough, *Introduction to Supplementary Estimates and Tax Legislation* (Toronto: Department of Treasury and Economics, December, 1971).

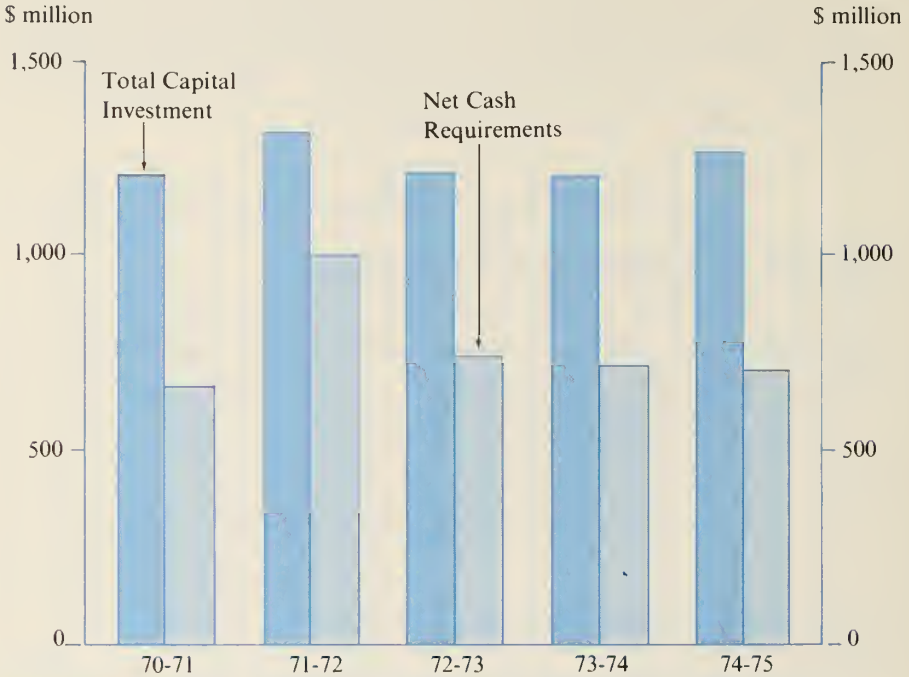
³See Table C1.

⁴See Table C7.

Total Capital Investment and Net Cash Requirements

Chart 1

1970-71 to 1974-75



that the Province has maintained a large-scale program for capital investment to ensure high levels of services in areas such as education, health, environment and housing.

The chart indicates that the Government's annual capital investment program has substantially exceeded net cash requirements over the past five years. This illustrates the fact that current tax and other revenues exceed current expenditure commitments thus producing a surplus which can be devoted to capital investment. The balance of capital investment requirements is met by debt financing.

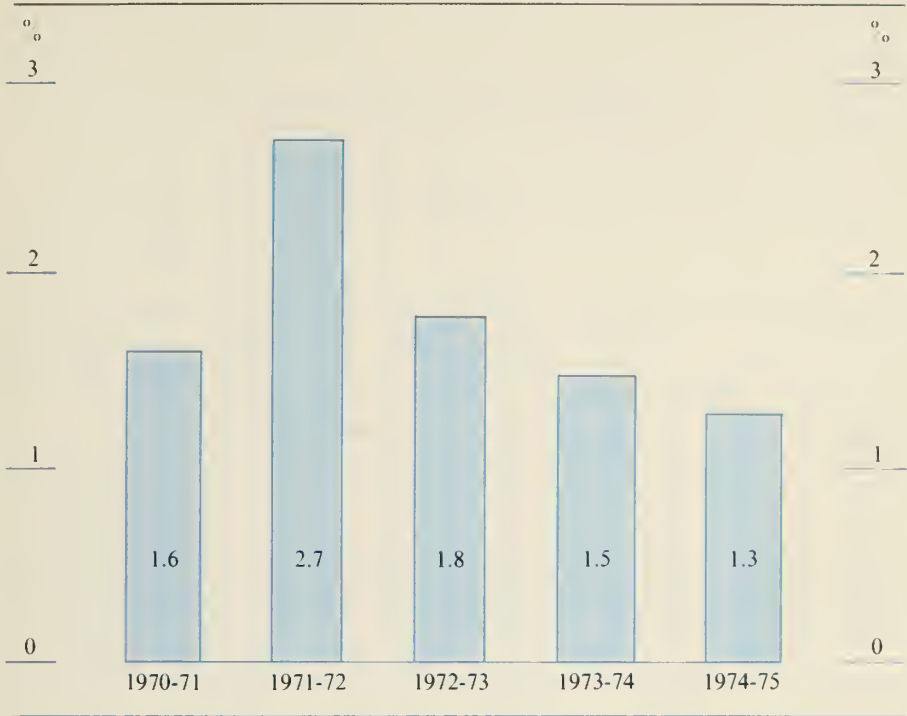
Economic Growth and Financing

As previously outlined, it is important to consider the development of the Provincial budget in the context of the performance of the economy. This section analyzes trends in Provincial indebtedness in relation to Gross Provincial Product and budgetary revenues.

The ratio of net cash requirements as a per cent of GPP is a useful broad measure of debt in terms of the economy's productive capacity. Chart 2 indicates that net cash requirements measured as a per cent of GPP have declined to 1.3 per cent in 1974-75, a five-year low.

Net Cash Requirements as a Percent of Gross Provincial Product 1970-71 to 1974-75

Chart 2



The trend in net debt per capita is shown in Table C8 in the Financial Statements. The rising trend is to be expected because population grows at a much slower rate than the economy.

Taking a longer and more meaningful perspective, Chart 3 displays the trend of net debt as a per cent of Gross Provincial Product over the past decade. It shows that the debt ratio fell during the late 1960's then built back up to its 1965 level during the early 1970's. Throughout the entire period, the ratio remained significantly below the 9 per cent guideline recommended by the Ontario Committee on Taxation.⁵

Another indicator of relative indebtedness is net debt as a ratio of budgetary revenue. Chart 4 shows that since 1965-66, this ratio has declined markedly from 68 per cent to 47 per cent. In other words, it would now require less than 6 months revenue to pay off the debt versus 9 months only a decade ago.

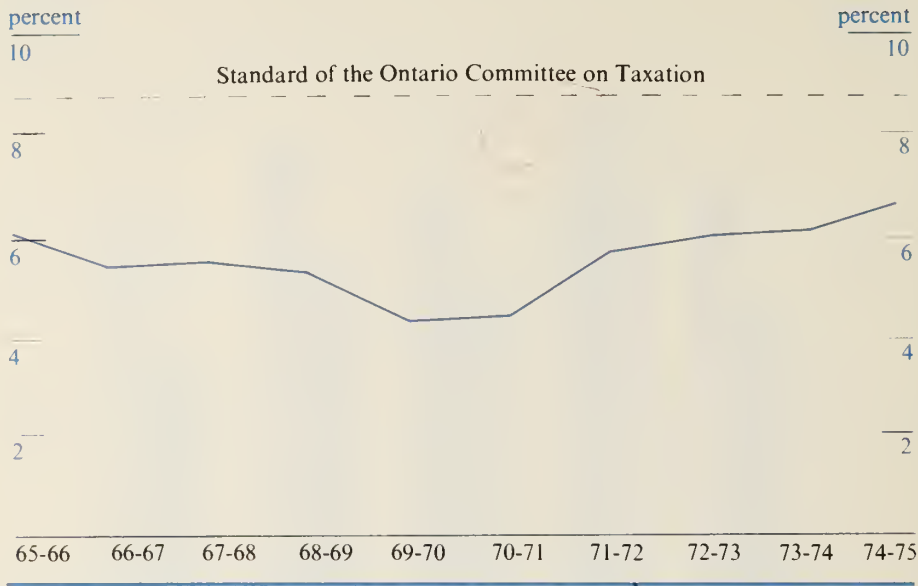
Expenditure Flexibility

Over the last decade, Ontario has implemented major program initiatives while, at the same time, acting to contain overall spending

⁵ *Report of the Ontario Committee on Taxation* (Toronto: Queen's Printer, 1967) Volume 1, Chapter 8, p. 270.

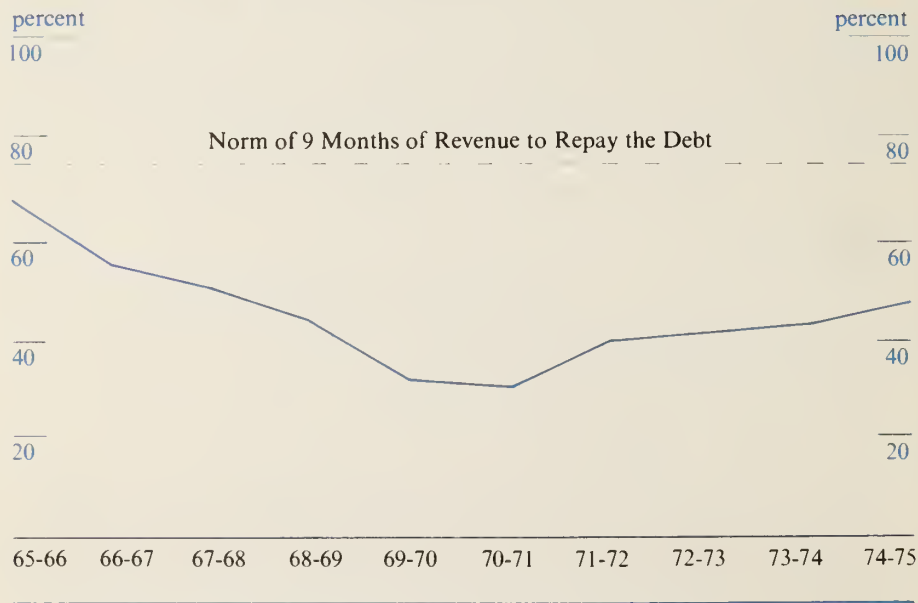
Net Debt as a Percent of
Gross Provincial Product
1965-66 to 1974-75

Chart 3



Net Debt as a Percent of
Budgetary Revenue
1965-66 to 1974-75

Chart 4



growth. By financing new programs out of economies in established programs, the Province has preserved the flexibility necessary to respond quickly to new economic and social priorities. During the period 1965-71, expenditure priorities were primarily geared to the expansion and development of education facilities and major improvements in the health care delivery system, including the introduction of comprehensive public health insurance. With the need for facilities substantially met by the early 1970's, the Province introduced a series of measures to control the year-to-year growth in operating expenditures. This is reflected in reduced growth rates in the fields of health and education spending as documented in Table 6.

Growth in Budgetary Expenditure

Table 6

(annual percent increase)

	1966-67	68-69	70-71	71-72	72-73	Interim 73-74	Estimated 74-75
Health	23.8	19.2	37.1	11.1	11.3	8.4	12.8
Education, Colleges and Universities	34.9	18.9	15.1	14.1	11.1	8.9	8.5
Other	16.8	22.8	19.6	20.0	2.3	19.0	19.5
Total Expenditure	23.6	20.6	22.7	15.5	7.5	12.7	14.3

Source: Ontario Treasury.

The changing priorities of Provincial expenditures are best illustrated by examining the composition of capital investment which influences the existing and future structure of operating costs. Table 7 shows the gradual phase-down in education investment as the growth in student enrolment levelled out. This provided scope to redeploy capital resources into other priority areas such as housing, environment and transportation.

Composition of Capital Investment

Table 7

(percent distribution)

	1970-71	71-72	72-73	Interim 73-74	Estimated 74-75
Education	35.7	32.2	24.3	15.2	9.4
Transportation	29.5	28.9	32.0	38.8	38.0
Housing and Community Environment ¹	8.8	11.3	10.3	9.7	15.0
Industrial and Resources Development	6.4	5.4	10.7	12.6	12.4
Other	19.6	22.2	22.7	23.7	25.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Ontario Treasury.

¹Excludes North Pickering Project.

The 1973-74 Fiscal Year in Retrospect

The in-year performance of the 1973 budget has been reported in the quarterly series *Ontario Finances* starting in July, 1973. Major developments included:

- a substantial reduction in net cash requirements from \$836 million in the original budget forecast to \$721 million;
- an increase of \$19 million in the budgetary deficit;
- a reduction of \$134 million in the non-budgetary deficit; and
- retirement of \$225 million in debt held by the public.

Budgetary revenue shows a gain of \$81 million, or 1.2 per cent above the original forecast after deducting \$65 million for the withdrawal of the proposed energy tax. This reflects higher than anticipated revenue yields from the retail sales tax, mining tax, land transfer tax and succession duties. On the other hand, personal income tax collections were below target because of a downward revision in the federal government's forecast and higher payments under Ontario's tax credit system. A loss of \$26 million in payments under shared-cost programs resulted from Ottawa's disallowance of reimbursement claims for the Province's extended health care program.

1973-74 Budget In-Year Performance
(\$ million)

Table 8

	Budget Estimate	Interim Estimate	Change From Original Budget
Budgetary Transactions			
Revenue	6,867 ¹	6,883	+ 16
Expenditure	7,269	7,304	+ 35
Budgetary Deficit	402	421	+ 19
Non-Budgetary Transactions			
Receipts and Credits	284	325	+ 41
Disbursements and Charges	718	625	- 93
Non-Budgetary Deficit	434	300	- 134
NET CASH REQUIREMENTS	836	721	- 115
Non-Public Borrowing	915	958	+ 43
Less Public Retirements	52	225	+ 173
Net Borrowing	863	733	- 130
Less Increase in Liquid Reserves	27	12	- 15
TOTAL FINANCING	836	721	- 115

¹Including \$65 million for a proposed energy tax which was subsequently withdrawn.

Budgetary expenditure shows a growth of \$35 million, 0.5 per cent above the original estimate. This includes the Ontario Pensioner Assistance Program (\$17 million) and an increase in the advance payments from 10 to 12 per cent for General Legislative Grants to school boards (\$24 million). Additional changes are documented in the *Ontario Finances* series.

Financial Statements

Statement of Operational Cash Requirements and Related Financing¹ (\$ million)

Table C1

	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Budgetary Transactions				
Revenue	5,403	6,115	6,883	7,716
Expenditure	6,028	6,481	7,304	8,341
Budgetary Deficit	625	366	421	625
Non-Budgetary Transactions				
Receipts and Credits	291	268	325	491
Disbursements and Charges	684	642	625	574
Non-Budgetary Deficit	393	374	300	83
NET CASH REQUIREMENTS	1,018	740	721	708
Non-Public Borrowing				
Canada Pension Plan	498	536	607	700
Teachers' Superannuation Fund	172	120	217	166
Municipal Employees' Retirement Fund	75	91	125	124
Federal-Provincial Employment Loans	—	27	—	—
Federal-Provincial Development Loans	6	—	—	—
Federal-Provincial Winter Capital Projects Fund (Net)	—	—	2	45
CMHC Pollution Control Loans	—	16	14	17
Retirements	(4)	(14)	(7)	(8)
	747	776	958	1,044
Public Borrowing				
Treasury Bills (Net)	190	70	(170)	(25)
Debentures:				
Issues	100	230	—	—
Retirements	(4)	(48)	(55)	(74)
Other Debt Reduction	—	—	—	(350)
	286	252	(225)	(449)
Reduction or [Increase] in Liquid Reserves	[15]	[288]	[12]	113
TOTAL FINANCING	1,018	740	721	708

¹Net cash requirements and total financing exclude the issue and retirement of public debentures by the Province on behalf of Ontario Hydro.

Budgetary Revenue

Table C2

(\$ million)

	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Taxation				
Personal Income Tax ¹	1,022	1,205	1,238	1,383
Retail Sales Tax	759	895	1,305	1,487
Corporation Taxes:				
Income Tax	370	448	533	574 ²
Capital and Premium Taxes	63	79	87	132
Gasoline Tax	396	427	480	510
Motor Vehicle Fuel Tax	40	60	70	75
Tobacco Tax	79	96	100	103
Succession Duty	73	76	84	75
Land Transfer Tax	16	29	45	120
Land Speculation Tax	—	—	—	25
Race Tracks Tax	20	24	28	32
Mining Profits Tax	14	17	45	88
Income Tax—Public Utilities	10	36 ³	13	12
Share of Federal Estate Tax	26	8	1	
Other Taxation	13	14	9	4
	2,901	3,414	4,038	4,620
Other Revenue				
Premiums—OHIP	580	520	528	535
Vehicle Registration Fees	144	170	185	192
Other Fees and Licences	67	81	86	92
LCBO Profits	220	254	281	312
Fines and Penalties	30	33	37	38
Sales and Rentals	26	28	30	27
Royalties	25	26	27	46
Water Treatment and Pollution Control Payments ⁴	—	18	18	21
Miscellaneous	17	31	25	18
	1,109	1,161	1,217	1,281
Payments from the Federal Government (See Table C4)	1,101	1,247	1,269	1,387
Interest on Investments	292	293	359	428 ⁵
TOTAL BUDGETARY REVENUE	5,403	6,115	6,883	7,716

¹Net of tax credits of \$182 million, \$305 million and \$375 million for the 1972, 1973 and 1974 taxation years respectively.

²Includes provision for \$75 million as compensation under federal guarantee for paralleling the corporate fast write-off incentive for manufacturing and processing industries.

³Includes \$25 million for an acceleration of two years in the timing of payments.

⁴Formerly classified as Miscellaneous and Interest on Investments.

⁵Excluding any discount from the debt retirement program.

**Budgetary Expenditure by
Policy Field and Ministerial Responsibility**
(\$ million)

Table C3

	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Social Development Policy¹				
Health	1,701	1,893	2,052	2,314
Education	1,202	1,316	1,412	1,497
Colleges and Universities	645	736	822	927
Community and Social Services	460	501	558	647
	4,008	4,446	4,844	5,385
Resources Development Policy				
Transportation and Communications	597	598	681	794
Natural Resources	126	139	158	172
Agriculture and Food	98	97	104	105
Environment	25	37	44	65
Industry and Tourism	33	22	26	30
Labour	9	10	13	14
Energy	—	—	2	2
	888	903	1,028	1,182
Justice Policy				
Solicitor General	71	83	92	99
Correctional Services	67	73	86	95
Attorney General	56	60	69	77
Consumer and Commercial Relations	22	25	29	33
	216	241	276	304
Other Ministries				
Treasury, Economics and Intergovernmental Affairs	289 ²	158	264	358
Government Services	159	162	178	225
Revenue	47	53	54	110 ³
Housing	22	26	41	83
Other	18	15	16	20
	535	414	553	796
Public Debt — Interest	381	477	603	674
TOTAL BUDGETARY EXPENDITURE	6,028	6,481	7,304	8,341⁴

¹Totals reflect transfer of retardation services from Health to Community and Social Services and regional nursing schools from Health to Colleges and Universities.

²Includes \$154 million for Basic Shelter Grants.

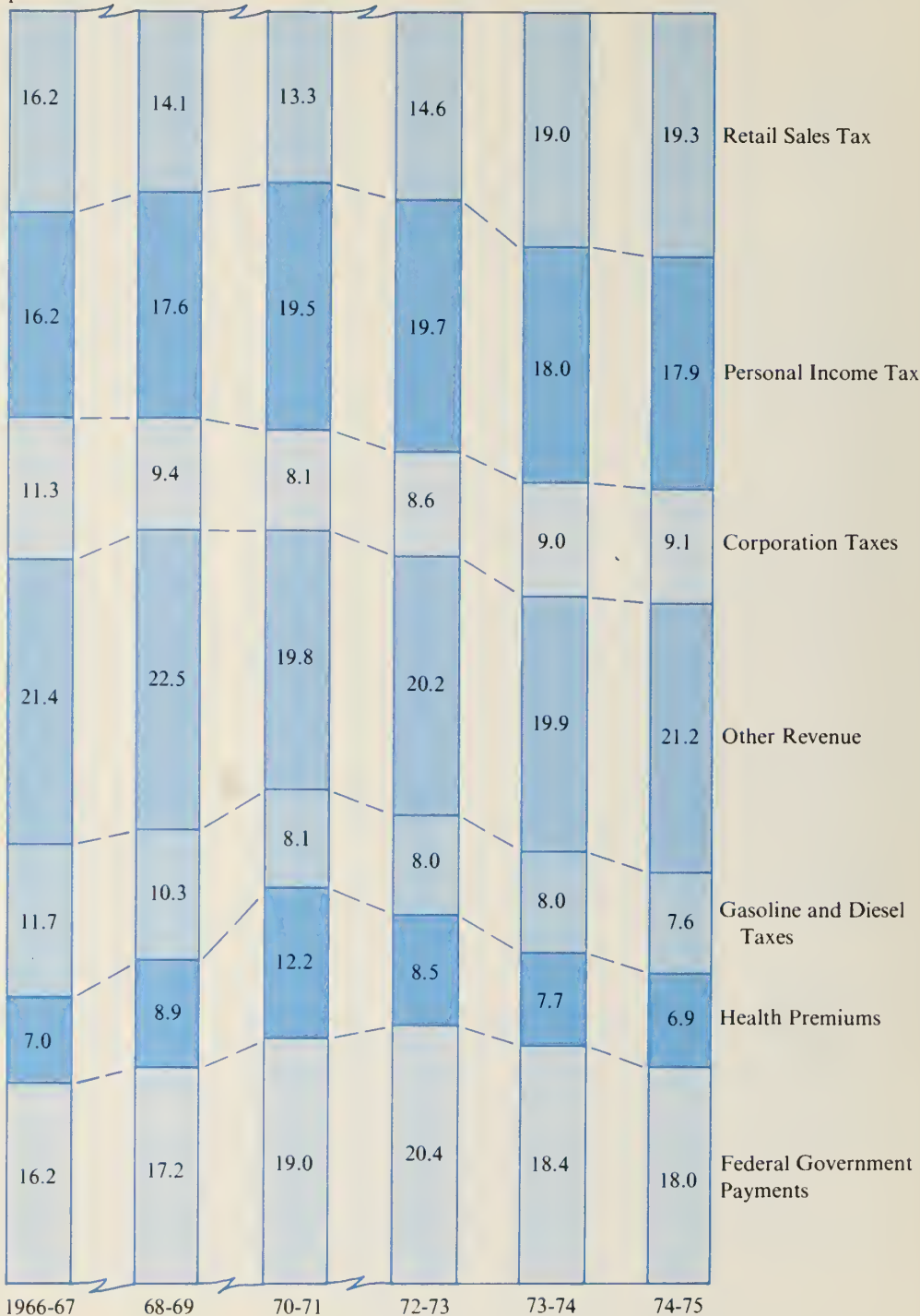
³Includes \$50 million for the Guaranteed Annual Income System (GAINS).

⁴Excludes potential \$200 million for Parkway Belt and Niagara Escarpment land purchases pending recommendations of Niagara Escarpment Commission and Parkway Belt Committees.

Relative Importance of Major Revenue Sources

Chart C1

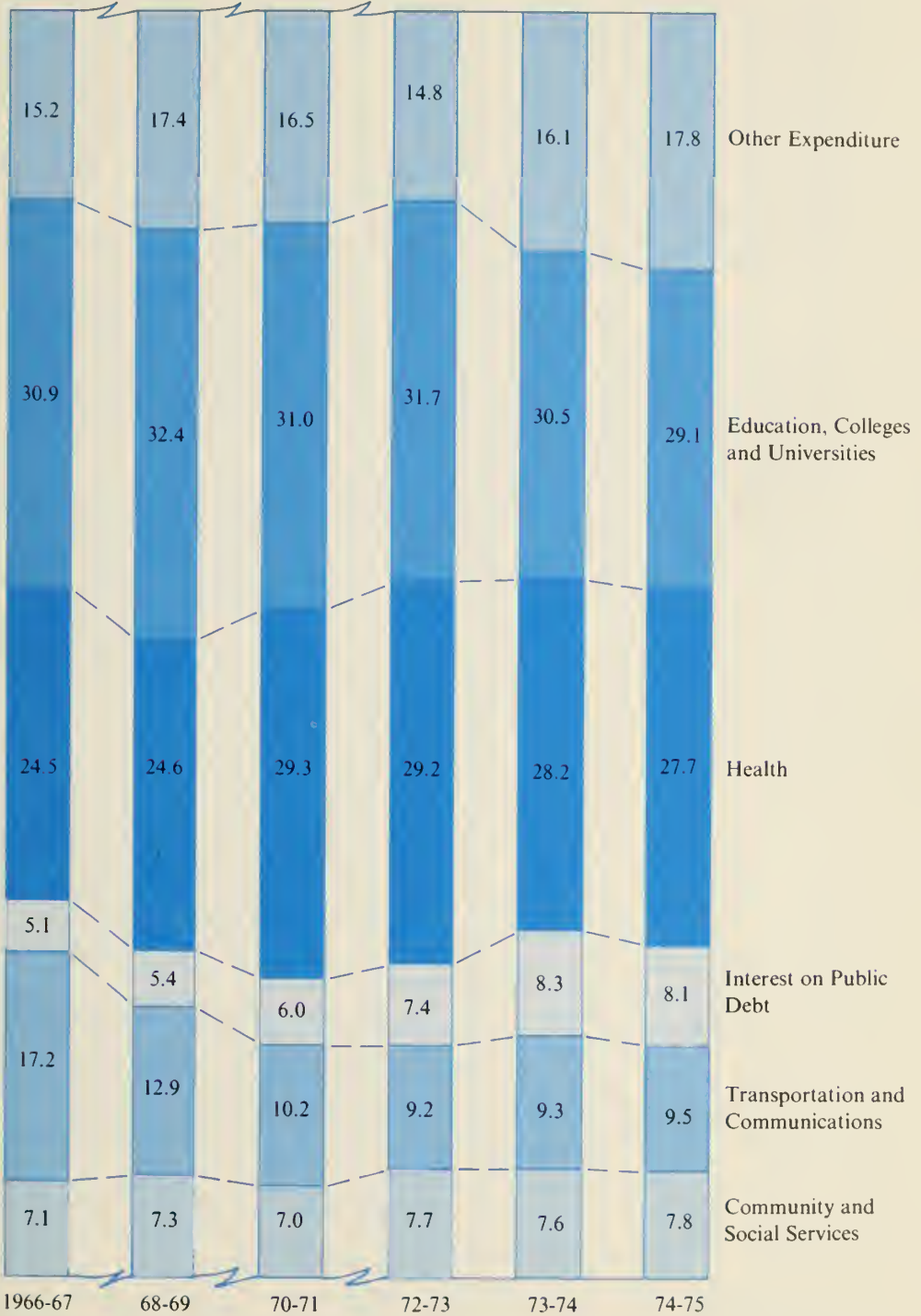
per cent



Relative Importance of Major Expenditure Functions

Chart C2

per cent



Federal Government Payments to Ontario
(\$ million)

Table C4

	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Conditional Payments				
Hospital Insurance Agreement	423	520 ¹	533	585
Medical Care Agreement	204	225	243	278
Canada Assistance Plan	211	210	208	236
Post-Secondary Education Adjustment Payments	157	162	154	144
Adult Occupational Training Agreement	43	66	66	55
Language Programs	17	18	24	27
Health Resources Fund	16	13	6	7
Other Shared-Cost Programs	25	26	29	49
	1,096	1,240	1,263	1,381
Unconditional Payments				
Annual Subsidies and Interest	5	7	6	6
TOTAL PAYMENTS	1,101	1,247	1,269	1,387
Federal Payments as a Percent of Ontario Revenue	20.4%	20.4%	18.4%	18.0%
¹ Includes \$45 million in respect of prior years' spending.				

Ontario Payments to Local Governments and Agencies

(\$ million)

Table C5

	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Conditional Payments				
Education	1,070	1,184	1,252	1,331
Transportation	244	234	271	338
Welfare	135	135	117	108
Health	11	10	8	10
Other	28	37	45	49
	1,488	1,600	1,693	1,836
Unconditional Payments				
Per Capita Grants	47	64	78	104
Resource Equalization Grants	—	—	56	71
General Support Grants	—	—	59	96
Mining Revenue Payments	8	10	—	—
Other	5	5	9	26
	60	79	202	297
Payments to Local Agencies				
Children's Aid Societies	39	40	42	44
Homes for the Aged	24	35	50	45
Conservation Authorities	14	19	27	24
Library Boards	9	9	12	16
Health Agencies	19	21	20	23
Other	2	2	3	3
	107	126	154	155
Basic Financial Transfers	1,655	1,805	2,049	2,288
Other Assistance				
Teachers' Superannuation Fund	75	73	99	97
Payments-in-lieu of Taxes	21	22	23	24
Tax Compensation Grants	—	—	12	12
Employment Incentives	32	29	14	27
	128	124	148	160
TOTAL FINANCIAL SUPPORT	1,783	1,929	2,197	2,448
Conditional and Unconditional Payments as a Percent of Local Government Revenue	43.8%	43.7%	46.5%	47.4%

Details of Non-Budgetary Transactions

Table C6

(\$ million)

Receipts and Credits	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Repayments of Loans and Advances				
Education Capital Aid Corporation	31	37	42	46
Universities Capital Aid Corporation	13	16	19	21
Ontario (and Student) Housing Corporations:				
North Pickering Community	—	—	—	133
Regular Programs	54	6	9	1
Federal-Provincial Winter Capital				
Projects Fund	—	—	—	18
Water Treatment and Pollution Control				
Facilities ¹	1	4	17	15
Hospital Construction Loans	6	9	11	13
Ontario Development Corporations	6	7	7	9
Ontario Mortgage Corporation ²	—	1	6	8
Nuclear Power Generating Station	2	5	5	5
Municipal Improvement Corporation	4	—	3	4
Municipal Works Assistance	4	4	4	4
Tile Drainage Debentures	3	3	4	3
Junior Farmer Establishment Loan				
Corporation	5	5	6	
Other	4	3	7	3
	133	100	140	283
Pension Funds, Deposit, Trust and Reserve Accounts				
Public Service Superannuation Fund	102	119	127	142
Municipal Employees' Retirement Fund	16	20	19	21
Motor Vehicle Accident Claims Fund	9	10	10	13
Other	2	6	5	7
	129	155	161	183
Province of Ontario Savings Deposits (Net)	29	13	24	25
TOTAL RECEIPTS AND CREDITS	291	268	325	491

^{1,2}See footnotes on the opposite page.

(Continued)

Details of Non-Budgetary Transactions

Table C6

(\$ million)

(Continued)

Disbursements and Charges	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Loans and Advances				
Water Treatment and Pollution Control				
Facilities ¹	45	80	79	116
Education Capital Aid Corporation	198	126	88	80
Universities Capital Aid Corporation	179	147	77	38
Ontario Mortgage Corporation ²	93	62	44	75
Ontario (and Student) Housing Corporations:				
North Pickering Community	—	30	96	7
Housing Action Program	—	—	—	15
Regular Programs	42	45	45	46
Ontario Development Corporations	15	19	26	42
Federal-Provincial Winter Capital				
Projects Fund	—	—	2	35
Hospital Construction Loans and				
Assistance	38	31	33	28
Shoreline Property Assistance	—	—	1	10
Tile Drainage Debentures	6	5	8	5
Municipal Improvement Corporation	8	5	4	4
Federal-Provincial Employment				
Loans, 1971	—	2	18	—
Northland Transportation Commission	—	—	28	—
Transportation Development Corporation	—	—	6	—
Federal-Provincial Development				
Loans, 1970	—	3	2	—
Nuclear Power Generating Station	9	24	—	—
Other	1	4	2	4
	634	583	559	505
Pension Funds, Deposit, Trust and				
Reserve Accounts				
Public Service Superannuation Fund	27	31	37	41
Municipal Employees' Retirement Fund	14	16	20	19
Motor Vehicle Accident Claims Fund	8	9	8	8
Other	1	3	1	1
	50	59	66	69
TOTAL DISBURSEMENTS AND				
CHARGES	684	642	625	574

¹Formerly Ontario Water Resources Commission.²Formerly Housing Corporation Limited.

Investment in Physical Assets

Table C7

(\$ million)

	1972-73	Interim 1973-74	Estimated 1974-75
Budgetary Investment			
Direct Expenditure:			
Roads and Transit	230	265	288
Public Buildings	72	77	89
Other	31	27	68
	333	369	445
Transfer Payments:			
Roads and Transit	147	164	199
Health	60	50	61
Other	88	79	90
	295	293	350
Total Budgetary Investment	628	662	795
Non-Budgetary Investment			
Home and Community Environment	151	203	200
Education	273	165	118
Industrial and Resources Development	126	140	159
Health	31	33	28
Total Non-Budgetary Investment	581	541	505
TOTAL INVESTMENT	1,209	1,203	1,300

Ten-Year Review

(\$ million)

Table C8

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	Interim 1973-74	Estimated 1974-75
Budgetary Transactions										
Revenue	1,959	2,430	2,885	3,531	4,401	5,081	5,403	6,115	6,883	7,716
Expenditure	1,959	2,421	3,004	3,624	4,251	5,217	6,028	6,481	7,304	8,341
Surplus or (Deficit)	—	9	(119)	(93)	150	(136)	(625)	(366)	(421)	(625)
Financial Position										
Total Liabilities—Gross Debt	2,567	3,013	3,669	4,448	5,084	5,795	6,986	8,333	n.a.	n.a.
Total Assets ¹	1,236	1,682	2,220	2,906	3,691	4,266	4,832	5,811		
Net Debt ² (Gross debt minus total assets)	1,331	1,331	1,449	1,542	1,393	1,529	2,154	2,522	2,943	3,568
Net Debt Per Capita (dollars) (Population April 1)	192.22	187.53	200.25	209.51	185.03	199.00	276.09	318.47	366.14	437.31
Net Debt as a Percent of Gross Provincial Product (%)	6.1	5.4	5.5	5.3	4.3	4.4	5.7	6.0	6.1	6.6
Net Debt as a Percent of Budgetary Revenue (%)	67.9	54.8	50.2	43.7	31.7	30.1	39.9	41.2	42.8	46.2
Contingent Liabilities (Mainly Ontario Hydro)	1,752	1,927	1,933	2,127	2,168	2,413	2,781	3,030	n.a.	n.a.

¹The costs of acquiring long-term physical assets such as roads and buildings are treated as expenditures in the year of outlay and are, accordingly, excluded from this classification.

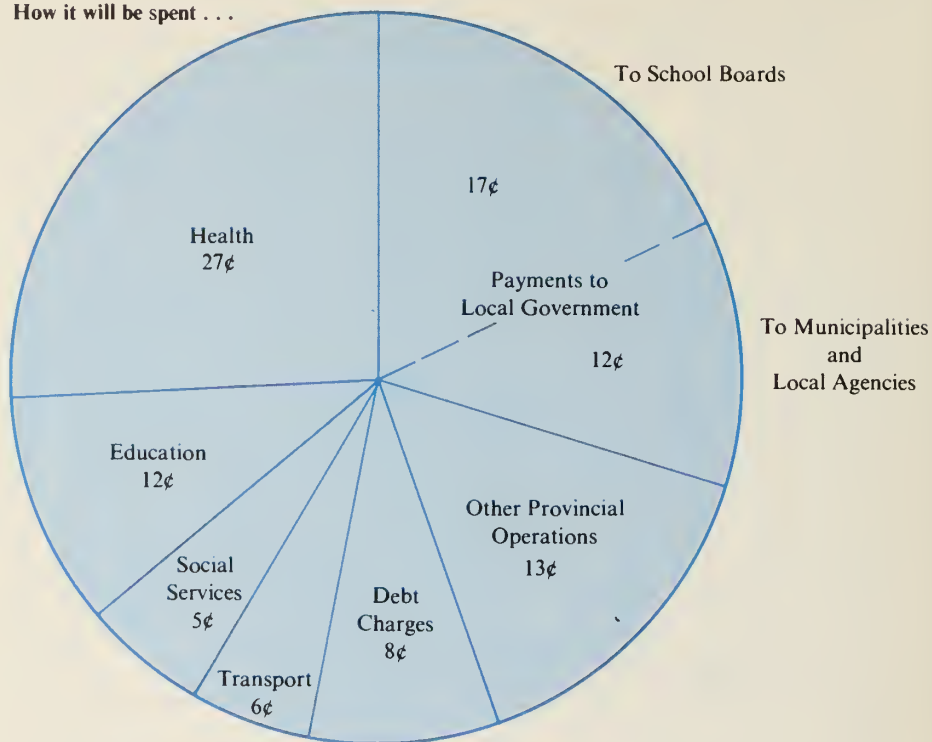
²In the years prior to 1971-72, differences between Net Debt as reported in the Financial Report and in this table are explained by the balance of the OHSC Premium Stabilization Account.

Note: A reconciliation of budgetary transactions per this table with the 1972 Financial Report Ten-Year Review is shown in Table C8a of the Ontario 1973 Budget. n.a.—not available.

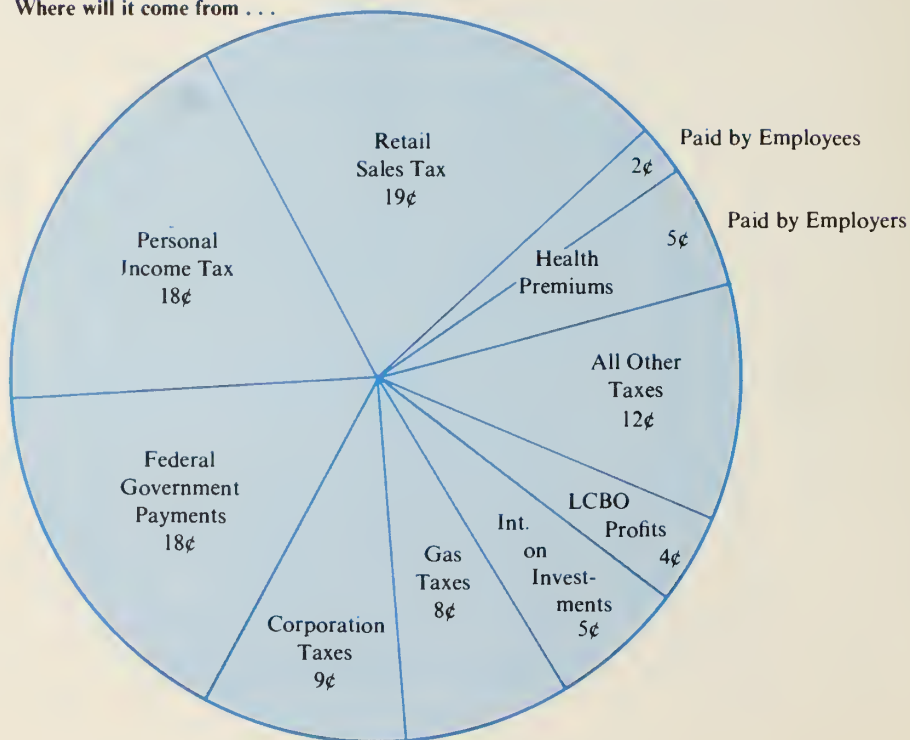
THE BUDGET DOLLAR

Fiscal Year 1974-75 Estimates

How it will be spent . . .

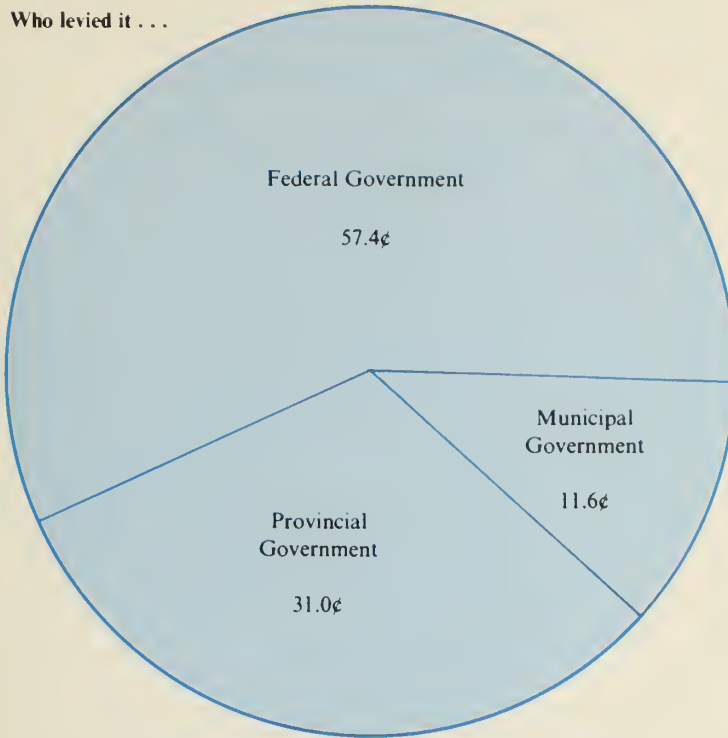


Where will it come from . . .

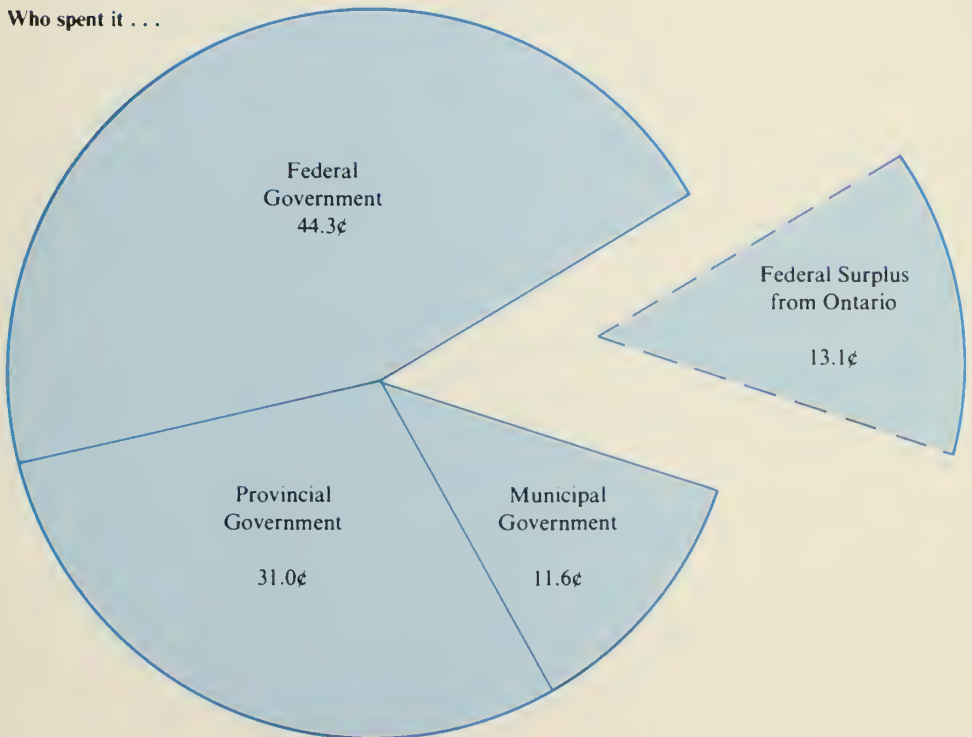


THE TAX DOLLAR IN ONTARIO 1972

Who levied it . . .



Who spent it . . .



AUG 13 1986

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